

**REPORT OF THE AUDIT OF THE
KNOTT COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2006**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Randy Thompson, Knott County Judge/Executive
Members of the Knott County Fiscal Court

The enclosed report prepared by Simon, Underwood & Associates, PSC, Certified Public Accountants, presents the financial activities of Knott County, Kentucky for fiscal year ended June 30, 2006, and Simon, Underwood & Associates, PSC has issued a disclaimer of opinion thereon.

We engaged Simon, Underwood & Associates, PSC, to perform the audit of these financial statements. We worked closely with the firm during our report review process; Simon, Underwood & Associates, PSC, evaluated the Knott County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE KNOTT COUNTY FISCAL COURT

June 30, 2006

Simon, Underwood & Associates PSC was engaged to audit the financial activities of Knott County, Kentucky for fiscal year ended June 30, 2006 and we have issued a disclaimer of opinion thereon.

Based on our assessment of fraud risk, we determined the risk for fraud to be too high and we were unable to apply other procedures to overcome this fraud risk. In addition, the Fiscal Court had serious weaknesses in the design and operation of its internal control procedures and accounting functions. Furthermore, management elected to override the internal control procedures that were in place. We were unable to apply audit procedures to test for appropriate compliance with statutory, contractual, and administrative regulations as well as with federal grant agreements, Governor's Office for Local Development (GOLD) requirements, and county administrative code requirements. Because of this, we were also unable to determine if ethics violations occurred. In addition, we were not able to access certain fiscal court records needed to adequately conduct our procedures due to the county's failure to provide certain requested documentation. Because of these issues, we disclaimed an opinion on the financial activities of Knott County, Kentucky.

Report Comments:

- | | |
|---------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2006-01 | Over \$8.2 Million In Public Funds Were Expended For The Knott County Youth Foundation By Fiscal Court Without A Formal Agreement Between The County And The Youth Center With \$2.7 Million Being Spent Without Land Ownership |
| 2006-02 | Knott County Road Expenditures Totaling \$780,814 Could Not Be Validated |
| 2006-03 | \$412,035 In Public Funds Were Used For Knott County Adventure Tourism Park System (ATV Center) While On Private Property |
| 2006-04 | All Related Party Transactions Should Be Disclosed To The Fiscal Court |
| 2006-05 | Knott County Paid Approximately \$7,380 In Health And Dental Insurance Benefits For Five Terminated Employees |
| 2006-06 | Knott County Bridge Foreman And A Bridge Employee Were Compensated As Both An Employee And An Independent Contractor To Build Bridges Expenditures For Which Could Not Be Validated |
| 2006-07 | Finance Director Was Compensated As Both An Employee And An Independent Contractor |
| 2006-08 | Knott County Fiscal Court Continues To Lack Controls Over County Vehicles And Cell Phones Provided To County Employees And Fails To Report Personal Use As Taxable Income |
| 2006-09 | Knott County Fiscal Court Approved The Exchange Of .14 Acres Owned By Fiscal Court With .04 Acres Purportedly Owned By The County Attorney And Former County Treasurer's Brother |
| 2006-10 | Knott County Fiscal Court Failed To Take Corrective Action Of Prior Year Ended June 30, 2005 Comments Relating To Pool Project, Federal And Restricted Funds |
| 2006-11 | Knott County Judge/Executive May Appoint Only One Deputy Judge/Executive |
| 2006-12 | Knott County Did Not Provide A Form 1099 To The Former Treasurer As Both An Employee And A Contractor For Consulting Fees That Could Not Be Validated |
| 2006-13 | All Contingent Liabilities Should Be Disclosed To The Fiscal Court |
| 2006-14 | The County Failed To Comply With State Laws And Regulations |

EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
KNOTT COUNTY FISCAL COURT
June 30, 2006
(Continued)

Report Comments: (Continued)

- | | |
|---------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2006-15 | Knott County Fiscal Court Did Not Follow Competitive Bidding Requirements For County Projects And Contracts Not Bid Were Paid To Related Parties |
| 2006-16 | Knott County Fiscal Court Should Improve Controls Over Payroll Procedures And Should Pay Overtime In Accordance With Wage And Hour Laws |
| 2006-17 | Knott County Fiscal Court Expenditures Of Over \$2 Million Failed To Have Proper Documentation Or Comply With Payment Procedures |
| 2006-18 | Knott County Fiscal Court Minutes Should Accurately Reflect What Occurs At Fiscal Court Meetings; And Committees, Commissions And Boards Appointed By The Fiscal Court Should Also Maintain Minutes Of Their Respective Meetings |
| 2006-19 | The County Does Not Maintain Proper Documentation For Accurate Valuation Of Capital Assets |
| 2006-20 | The County Does Not Maintain Proper Documentation Totaling \$45,222 For Independent Contractors |
| 2006-21 | Approximately \$8.2 Million Of Assets Are At Risk Due To Inadequate Insurance Coverage |
| 2006-22 | Fiscal Court Paid \$303 In Late Fees On Credit Card Payments |
| 2006-23 | Fiscal Court Should Improve Policies And Procedures Related To The Schedule Of Expenditures Of Federal Awards |

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*Simon,
Underwood &
Associates* PSC

Certified Public Accountants and Consultants

To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Randy Thompson, Knott County Judge/Executive
Members of the Knott County Fiscal Court

Independent Auditor's Report

We were engaged to audit the financial activity contained in the Fourth Quarterly Report of Knott County, Kentucky, as of and for the year ended June 30, 2006. The financial activity is the responsibility of the Knott County Fiscal Court.

The financial activity contained in the Fourth Quarterly Report is intended to present budgeted and actual revenues and expenditures of Knott County, Kentucky on the cash basis of accounting and also the long-term debt of Knott County, Kentucky. Actual revenues and expenditures are recognized when received or paid rather than when earned or incurred. The presentation of the financial activity contained in the Fourth Quarterly Report is not intended to be a presentation in conformity with generally accepted accounting principles.

Based on our assessment of fraud risk, we determined the risk of fraud to be too high, and we were unable to apply other procedures to overcome this fraud risk. In addition, the Fiscal Court had serious weaknesses in the design and operation of its internal control procedures and accounting functions. Furthermore, management elected to override the internal control procedures that were in place. We were unable to apply audit procedures to test for appropriate compliance with statutory, contractual, and administrative regulations as well as with federal grant agreements, Governor's Office for Local Development (GOLD) requirements, and county administrative code requirements. Because of this, we were also unable to determine if ethics violations occurred. In addition, we were unable to access certain Fiscal Court records needed to adequately conduct our procedures due to the county's failure to provide certain requested documentation. The significance of these issues, in the aggregate, prevents us from placing any reliance on the financial activities contained in the Fourth Quarterly Report of the Fiscal Court.

Because we were unable to place reliance on the accuracy, validity, and completeness of the county's Fourth Quarterly Report and because audit risk is at an unacceptable level, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial activity contained in the report referred to in the first paragraph.

To the People of Kentucky
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In accordance with Government Auditing Standards, we have also issued our report dated March 28, 2007, on our consideration of Knott County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following report comments:

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|---------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
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2006-22	Fiscal Court Paid \$303 In Late Fees On Credit Card Payments
2006-23	Fiscal Court Should Improve Policies And Procedures Related To The Schedule Of Expenditures Of Federal Awards

Simon, Underwood & Associates PSC |

Simon, Underwood & Associates PSC
Certified Public Accountants and Consultants

Louisville, Kentucky
March 28, 2007

KNOTT COUNTY OFFICIALS

For The Year Ended June 30, 2006

Fiscal Court Members:

Donnie Newsome, resigned September 30, 2005	County Judge/Executive
Randy Thompson, appointed October 1, 2005	County Judge/Executive
Ronnie Adams	Magistrate
Keith Combs	Magistrate
Walter Combs	Magistrate
James Huff	Magistrate

Other Elected Officials:

Randy Slone	County Attorney
Eldon Hicks	Jailer
Kenneth Gayheart	County Clerk
Ray Bolen	Sheriff
Edward Slone	Property Valuation Administrator
Jeff Blair	Coroner

Appointed Personnel:

Mac Combs	Deputy Judge/Executive
Randy Watts, removed March 31, 2006	Deputy Judge/Executive
Ray Slone, appointed March 31, 2006	Deputy Judge/Executive
Phillip Champion,, appointed April 1, 2006	Deputy Judge/Executive
Debra C. Moore, resigned July 1, 2005	County Treasurer
Darrell Madden, appointed July 1, 2005, resigned September 20, 2005	County Treasurer
Byron Jacobs, appointed October 1, 2005	County Treasurer
Darrell Madden, CPA, PSC	Finance Officer
Tammy Brewer	Finance Director
Harold D. Bentley	Road Foreman
Devoist Bentley, retired March 24, 2006	Bridge Foreman

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**KNOTT COUNTY
FOURTH QUARTER FINANCIAL STATEMENT**

For The Year Ended June 30, 2006

Governor's Office for Local Development
County Financial Reporting

Summary

Please verify the information in the text boxes below and click [here](#) to make corrections, if necessary.

County Number	060	County Judge Executive	Randy Thompson	Source	GOLDXL2
County Name	Knott	County Treasurer	Byron Jacobs	Filing Type	4Q
FYBeginDate	07/01/2005	Date Submitted	07/20/2006		
FYEndDate	06/30/2006	System Date	2007-05-25 11:56:20		

FundCode	FundDescription	TotalReceipts	Disbursements	CashBalance	Encumbrances	Unencumbrances
01	GENERAL	\$2,233,166.47	\$1,794,816.58	\$438,349.89	\$240,000.00	\$198,349.89
02	ROAD	\$1,624,912.99	\$1,508,250.79	\$116,662.20	\$0.00	\$116,662.20
03	JAIL	\$818,918.82	\$798,394.80	\$20,524.02	\$0.00	\$20,524.02
04	LGEA	\$3,881,416.36	\$3,123,547.51	\$757,868.85	\$0.00	\$757,868.85
06	STATE GRANTS	\$2,166,122.81	\$1,411,836.89	\$754,285.92	\$107,940.05	\$646,345.87
07	FEDERAL GRANTS	\$545.98	\$0.00	\$545.98	\$0.00	\$545.98
08	EMERGENCY MGT	\$55,681.55	\$9.81	\$55,671.74	\$0.00	\$55,671.74
12	FORESTRY	\$7,159.49	\$0.00	\$7,159.49	\$0.00	\$7,159.49
75	E-911	\$187,853.88	\$169,973.43	\$17,880.45	\$0.00	\$17,880.45
99	DEBT SERVICE	\$98,364.31	\$0.00	\$98,364.31	\$0.00	\$98,364.31
		\$11,074,142.66	\$8,806,829.81	\$2,267,312.85	\$347,940.05	\$1,919,372.80

County Number		060	County Judge Executive		Randy Thompson	Source	GOLDXL2
County Name		Knott	County Treasurer		Byron Jacobs	Filing Type	
FYBeginDate		07/01/2005	Date Submitted		07/20/2006		
FYEndDate		06/30/2006	System Date		2007-05-25 11:56:20		
FundCode	FundDescription	Bank Balance	DepositsInTransit	OutstandingChecks	Other	CashBalance	
01	GENERAL	\$243,301.81		\$21,972.31		\$221,329.50	
02	ROAD	\$415,920.02		\$3,568.00		\$412,352.02	
03	JAIL	\$30,216.86		\$2,490.12		\$27,726.74	
04	LGEA	\$429,433.29		\$10,519.48		\$418,913.81	
06	STATE GRANTS	\$356,179.07		\$0.00		\$356,179.07	
07	FEDERAL GRANTS	\$545.98		\$0.00		\$545.98	
08	EMERGENCY MGT	\$55,607.16		\$0.00		\$55,607.16	
12	FORESTRY	\$6,711.93		\$0.00		\$6,711.93	
75	E-911	\$18,850.46		\$1,687.92		\$17,162.54	

Governor's Office for Local Development
County Financial Reporting

Receipts

County Number		060	County Judge Executive		Randy Thompson	Source		GOLDXL2
County Name		Knott	County Treasurer		Byron Jacobs	Filing Type		4Q
FYBeginDate		07/01/2005	Date Submitted		07/20/2006			
FYEndDate		06/30/2006	System Date		2007-05-25 11:56:20			
FundCode	MajorObjCode	MajorObjSufx	ObjectDescription	OriginalBudget	Amendments	ReceivedThisQtr	ReceivedToDate	UnderOverBudget
01	4101		Real Property Taxes	\$301,000.00	\$0.00	\$21,439.04	\$230,268.45	\$70,731.55
01	4102		Personal Property Taxes	\$81,500.00	\$0.00	\$92.86	\$120,094.89	-\$38,594.89
01	4103		Motor Vehicle Taxes	\$103,550.00	\$0.00	\$42,464.33	\$116,788.17	-\$13,238.17
01	4104		Delinquent Taxes	\$33,680.00	\$0.00	\$3,801.40	\$17,097.56	\$16,582.44
01	4107		Unmined Minerals Taxes	\$203,200.00	\$0.00	\$117,352.01	\$292,540.20	-\$89,340.20
01	4121		Advertising Costs	\$800.00	\$0.00	\$480.00	\$480.00	\$320.00
01	4130		Bank Franchise Deposit Tax	\$28,050.00	\$0.00	\$0.00	\$28,634.36	-\$584.36
01	4131		Public Service Tax	\$67,900.00	\$0.00	\$9,577.06	\$75,561.14	-\$7,661.14
01	4135		Deed Transfers	\$10,500.00	\$0.00	\$1,535.20	\$24,205.57	-\$13,705.57
01	4201		Pilot Public Housing	\$0.00	\$0.00	\$6,980.00	\$6,980.00	-\$6,980.00
01	4204		Pilot US Treasury	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
01	4210		Acreage Tax-Corps of Engineers	\$2,050.00	\$0.00	\$0.00	\$2,095.52	-\$45.52
01	4302		Excess Fees-County Clerk	\$2,176.00	\$0.00	\$53.44	\$2,933.03	-\$757.03
01	4304		Excess Fees-Sheriff	\$1,300.00	\$243,056.75	\$176.51	\$244,533.26	-\$176.51
01	4501		Omitted Property Tax Bills	\$0.00	\$0.00	\$22,139.01	\$22,139.01	-\$22,139.01
01	4504		Federal Grants	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
01	4505		Motor Vehicle Tax-Other Counties	\$5,500.00	\$0.00	\$0.00	\$0.00	\$5,500.00
01	4506		State Reimbursements	\$0.00	\$0.00	\$165,000.00	\$167,274.00	-\$167,274.00
01	4508		State Grants - LGED	\$50,000.00	\$0.00	\$0.00	\$0.00	\$50,000.00
01	4510		State Grants	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
01	4520		Election Reimbursements	\$18,000.00	\$0.00	\$0.00	\$0.00	\$18,000.00
01	4521		Board of Assessments	\$1,200.00	\$0.00	\$0.00	\$1,000.00	\$200.00
01	4522		Legal Process Fees	\$130.00	\$0.00	\$0.00	\$79.31	\$50.69
01	4526		Strip Mine Permits	\$53,000.00	\$0.00	\$0.00	\$22,995.83	\$30,004.17
01	4532		Courthouse Rental-AOC	\$132,000.00	\$78,186.00	\$89,717.00	\$210,186.00	\$0.00
01	4602		Solid Waste Commissions	\$122,600.00	\$0.00	\$32,399.56	\$123,240.88	-\$640.88
01	4705		Sales of Surplus Real Property	\$0.00	\$0.00	\$112,500.00	\$112,500.00	-\$112,500.00
01	4726		Insurance Proceeds	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
01	4727		Reimbursements	\$0.00	\$0.00	\$104.00	\$364.00	-\$364.00
01	4733		Insurance Reimbursements	\$58,000.00	\$50,512.67	\$17,872.17	\$121,218.32	-\$12,705.65
01	4799		Other Receipts	\$2,900.00	\$0.00	\$2,135.29	\$8,985.03	-\$6,085.03
01	4806		Interest Income	\$2,050.00	\$0.00	\$3,670.12	\$9,135.05	-\$7,085.05
01	4901		Prior Year Carryover	\$41,500.00	\$73,877.49	\$0.00	\$115,377.49	\$0.00
01	4909		Transfers Out	\$0.00	\$0.00	\$0.00	-\$398,738.50	\$398,738.50
01	4910		Transfers In	\$0.00	\$0.00	\$14,300.00	\$555,197.90	-\$555,197.90
01	4911		Borrowed Money	\$615,000.00	\$0.00	\$0.00	\$0.00	\$615,000.00
02	4513		Emerg. Road Aid - 3% Additional	\$21,500.00	\$0.00	\$0.00	\$0.00	\$21,500.00
02	4514		Transportation Cabinet	\$0.00	\$534,140.51	\$9,109.50	\$634,750.01	-\$100,609.50

Receipts

Governor's Office for Local Development
County Financial Reporting

County Number		060	County Judge Executive		Randy Thompson	Source		GOLDXL2
County Name		Knott	County Treasurer		Byron Jacobs	Filing Type		4Q
FYBeginDate		07/01/2005	Date Submitted		07/20/2006			
FYEndDate		06/30/2006	System Date		2007-05-25 11:56:20			
FundCode	MajorObjCode	MajorObjSufx	ObjectDescription	OriginalBudget	Amendments	ReceivedThisQtr	ReceivedToDate	UnderOverBudget
02	4515		Energy Recovery Road Aid	\$26,500.00	\$0.00	\$0.00	\$0.00	\$26,500.00
02	4516		Truck Licenses	\$197,550.00	\$25,140.42	\$0.00	\$222,690.42	\$0.00
02	4517		Operators License	\$1,575.00	\$0.00	\$0.00	\$0.00	\$1,575.00
02	4518		County Road Aid	\$697,000.00	\$151,018.00	\$0.00	\$848,018.00	\$0.00
02	4799		Other Receipts	\$3,000.00	\$0.00	\$0.00	\$1,174.70	\$1,825.30
02	4806		Interest Income	\$1,025.00	\$0.00	\$3,157.84	\$8,707.81	-\$7,682.81
02	4901		Prior Year Carryover	\$25,000.00	\$40,469.95	\$0.00	\$65,469.95	\$0.00
02	4909		Transfers Out	\$0.00	\$0.00	\$0.00	-\$155,897.90	\$155,897.90
02	4911		Borrowed Money	\$135,000.00	\$0.00	\$0.00	\$0.00	\$135,000.00
03	4533		County Jail Allotment	\$57,000.00	\$0.00	\$12,974.13	\$51,896.51	\$5,103.49
03	4534		Routine Medical	\$5,000.00	\$0.00	\$2,134.94	\$4,435.83	\$564.17
03	4535		Court Costs	\$2,975.00	\$0.00	\$0.00	\$332.27	\$2,642.73
03	4538		D.U.I. Fees	\$3,100.00	\$0.00	\$836.83	\$2,724.81	\$375.19
03	4567		Court Cost Supplement	\$1,800.00	\$0.00	\$5,165.47	\$18,434.87	-\$16,634.87
03	4799		Other Receipts	\$100.00	\$0.00	\$1,109.25	\$1,354.61	-\$1,254.61
03	4806		Interest Income	\$20.00	\$0.00	\$458.04	\$860.03	-\$840.03
03	4901		Prior Year Carryover	\$0.00	\$1,879.89	\$0.00	\$1,879.89	\$0.00
03	4910		Transfers In	\$435,000.00	\$0.00	\$125,000.00	\$737,000.00	-\$302,000.00
04	4406		Other Licenses	\$250.00	\$0.00	\$0.00	\$0.00	\$250.00
04	4504		Federal Grants	\$2,000,000.00	\$0.00	\$0.00	\$5,956.67	\$1,994,043.33
04	4506		State Reimbursements - SC, etc.	\$95,000.00	\$0.00	\$28,707.87	\$277,072.31	-\$182,072.31
04	4508		State Grants - LGED	\$2,155,069.00	\$0.00	\$0.00	\$0.00	\$2,155,069.00
04	4527		Coal Severance Tax	\$1,347,000.00	\$447,938.08	\$487,650.20	\$1,794,938.08	\$0.00
04	4529		Mineral Severance Tax	\$1,195,000.00	\$738,763.85	\$693,931.76	\$1,933,763.85	\$0.00
04	4541		EM Reimbursement	\$14,552.00	\$0.00	\$0.00	\$0.00	\$14,552.00
04	4711		Rentals & Leases-Miscellaneous	\$6,750.00	\$0.00	\$1,684.00	\$7,521.00	-\$771.00
04	4733		Insurance Reimbursements	\$0.00	\$0.00	\$3,912.25	\$22,213.69	-\$22,213.69
04	4799		Other Receipts	\$8,000.00	\$0.00	\$6,509.14	\$123,645.23	-\$115,645.23
04	4806		Interest Income	\$5,175.00	\$0.00	\$7,168.26	\$15,309.58	-\$10,134.58
04	4901		Prior Year Carryover	\$195,000.00	\$339,738.78	\$0.00	\$534,738.78	\$0.00
04	4909		Transfers Out	-\$435,000.00	\$0.00	-\$166,300.00	-\$1,223,302.83	\$788,302.83
04	4910		Transfers In	\$0.00	\$0.00	\$4,560.00	\$389,560.00	-\$389,560.00
06	4506		State Reimbursements - AML, etc.	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
06	4508		State Grants - LGED	\$1,069,900.00	\$0.00	\$0.00	\$1,010,489.32	\$59,410.68
06	4510		State Grants	\$0.00	\$677,113.82	\$762,366.82	\$986,814.86	-\$309,701.04
06	4799		Other Receipts	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
06	4806		Interest Income	\$1,100.00	\$0.00	\$6,014.78	\$12,246.99	-\$11,146.99
06	4901		Prior Year Carryover	\$229,000.00	-\$139,927.46	\$0.00	\$89,072.54	\$0.00

Receipts

Governor's Office for Local Development
County Financial Reporting

County Number		060	County Judge Executive		Randy Thompson	Source		GOLDXL2
County Name		Knott	County Treasurer		Byron Jacobs	Filing Type		4Q
FYBeginDate		07/01/2005	Date Submitted		07/20/2006			
FYEndDate		06/30/2006	System Date		2007-05-25 11:56:20			
FundCode	MajorObjCode	MajorObjSufx	ObjectDescription	OriginalBudget	Amendments	ReceivedThisQtr	ReceivedToDate	UnderOverBudget
06	4909		Transfers Out	\$0.00	\$0.00	-\$4,560.00	-\$4,560.00	\$4,560.00
06	4910		Transfers In	\$0.00	\$0.00	\$0.00	\$72,059.10	-\$72,059.10
07	4901		Prior Year Carryover	\$500.00	\$45.98	\$0.00	\$545.98	\$0.00
08	4542		Flood Disaster Reimbursement	\$0.00	\$0.00	\$0.00	\$47,804.76	-\$47,804.76
08	4806		Interest Income	\$0.00	\$0.00	\$64.58	\$232.63	-\$232.63
08	4901		Prior Year Carryover	\$500.00	\$5,461.93	\$0.00	\$5,961.93	\$0.00
08	4910		Transfers In	\$0.00	\$0.00	\$0.00	\$1,682.23	-\$1,682.23
12	4101		Real Property Taxes	\$650.00	\$0.00	\$362.48	\$3,380.84	-\$2,730.84
12	4104		Delinquent Taxes	\$200.00	\$0.00	\$16.38	\$98.66	\$101.34
12	4112		Forest Fire Suppression	\$3,275.00	\$0.00	\$0.00	\$0.00	\$3,275.00
12	4131		Public Service Tax	\$200.00	\$0.00	\$0.00	\$0.00	\$200.00
12	4806		Interest Income	\$20.00	\$0.00	\$68.70	\$185.39	-\$165.39
12	4901		Prior Year Carryover	\$750.00	\$2,744.60	\$0.00	\$3,494.60	\$0.00
75	4140		Telephone Surcharge E-911	\$141,000.00	\$0.00	\$34,799.90	\$139,397.27	\$1,602.73
75	4710		Map Sales	\$100.00	\$0.00	\$0.00	\$0.00	\$100.00
75	4799		Other Receipts	\$0.00	\$0.00	\$0.00	\$1,471.45	-\$1,471.45
75	4806		Interest Income	\$150.00	\$0.00	\$191.81	\$681.42	-\$531.42
75	4901		Prior Year Carryover	\$12,000.00	\$7,303.74	\$0.00	\$19,303.74	\$0.00
75	4909		Transfers In	\$0.00	\$0.00	\$27,000.00	\$27,000.00	-\$27,000.00
99	4808		Interest Other Investments	\$0.00	\$0.00	\$4,695.91	\$4,695.91	-\$4,695.91
99	4901		Prior Year Carryover	\$0.00	\$0.00	\$0.00	\$93,668.40	-\$93,668.40
TOTAL ALL FUNDS				\$11,596,872.00	\$3,277,465.00	\$2,722,579.84	\$11,074,142.66	\$3,800,194.34

Governor's Office for Local Development
County Financial Reporting

Expenditures

County Number	060	County Judge Executive	Randy Thompson
County Name	Knott	County Treasurer	Byron Jacobs
FYBeginDate	07/01/2005	File Submitted	07/20/2006
FYEndDate	06/30/2006	Fiscal Year End Date	2007-05-25 11:56:20

Source	GOLDXL2
Filing Type	4Q

FundCode	MajorObjCode	MinorObjCode	MinorObjectCode	SubjectDescription	OriginalBudget	Amendments	Transfers	Total/Available	Claims/Allowed	FreeBalance
01	5001	101		Judge/Executive Salary	\$68,077.00		\$0.00	\$68,077.00	\$66,148.77	\$1,928.23
01	5001	103		Deputy Judge/Executive Salary	\$31,495.00		\$18,000.00	\$49,495.00	\$49,342.72	\$152.28
01	5001	105		Judge/Executive Pro-Tem Salary	\$14,000.00		\$3,200.00	\$17,200.00	\$17,158.69	\$41.31
01	5001	106		Budget Officer Salary	\$0.00		\$1,840.00	\$1,840.00	\$1,840.00	\$0.00
01	5001	133		Purchase/Finance Officer	\$29,722.00		\$2,200.00	\$31,922.00	\$31,864.51	\$57.49
01	5001	185		Judge - Other Sal. & Wages	\$0.00		\$166.91	\$166.91	\$166.91	\$0.00
01	5001	301		Accounting Services	\$0.00		\$34,722.84	\$34,722.84	\$34,722.84	\$0.00
01	5001	302		Advertising	\$27,500.00		\$0.00	\$27,500.00	\$27,144.15	\$355.85
01	5001	309		Financial Consulting Services	\$0.00		\$16,870.00	\$16,870.00	\$16,870.00	\$0.00
01	5001	332		Legal Fees	\$0.00		\$1,000.00	\$1,000.00	\$1,000.00	\$0.00
01	5001	445		Office Supplies	\$20,000.00		\$20,650.00	\$40,650.00	\$40,639.06	\$10.94
01	5001	499		Other Materials and Supplies	\$1,000.00		\$4,500.00	\$5,500.00	\$4,797.12	\$702.88
01	5001	569		Judge's Office Conferences	\$0.00		\$225.00	\$225.00	\$225.00	\$0.00
01	5001	573		Executive Offices-Telephone	\$41,500.00		\$0.00	\$41,500.00	\$30,941.65	\$10,558.35
01	5001	576		Travel	\$1,500.00		\$913.03	\$2,413.03	\$2,380.49	\$32.54
01	5001	725		Office Equipment	\$2,000.00		\$0.00	\$2,000.00	\$0.00	\$2,000.00
01	5005	101		County Attorney's Salary	\$35,700.00		\$1,350.00	\$37,050.00	\$37,022.13	\$27.87
01	5005	105		Asst. County Attorney Salary	\$14,900.00		\$150.00	\$15,050.00	\$15,047.37	\$2.63
01	5005	165		Co Attorney Secretaries' Salaries	\$22,990.00		\$2,000.00	\$24,990.00	\$24,973.00	\$17.00
01	5005	185		Co Attorney - Other Sal. & Wages	\$0.00		\$1,027.06	\$1,027.06	\$1,027.06	\$0.00
01	5005	445		Co Attorney Office Supplies	\$7,250.00		\$0.00	\$7,250.00	\$6,971.45	\$278.55
01	5005	573		County Attorney Telephone	\$3,000.00		\$120.00	\$3,120.00	\$3,110.16	\$9.84
01	5010	103		Clerk Statutory Incentive Pay	\$0.00		\$6,495.76	\$6,495.76	\$6,495.76	\$0.00
01	5010	106		County Clerk Office Staff	\$0.00		\$1,500.00	\$1,500.00	\$1,095.00	\$405.00
01	5010	307		County Clerk Audits	\$8,250.00		\$0.00	\$8,250.00	\$5,766.67	\$2,483.33
01	5010	368		Tax Bill Preparation-County Clerk	\$2,500.00		\$3,841.50	\$6,341.50	\$6,296.25	\$45.25
01	5010	445		Co Clerk Office Supplies	\$17,500.00		\$13,200.00	\$30,700.00	\$30,592.06	\$107.94
01	5010	507		Match for RD Grant	\$14,000.00		\$0.00	\$14,000.00	\$0.00	\$14,000.00
01	5010	573		County Clerk Telephone	\$5,200.00		\$5,000.00	\$10,200.00	\$9,052.67	\$1,147.33
01	5010	705		Equipment County Clerk	\$0.00		\$90.00	\$90.00	\$89.06	\$0.94
01	5015	302		Advertising-Delinquent Taxes	\$1,250.00		\$7,250.00	\$8,500.00	\$8,453.25	\$46.75
01	5015	307		Sheriff Department Audit Services	\$11,000.00		\$17,250.00	\$28,250.00	\$28,248.11	\$1.89
01	5015	435		Sheriff Department Equipment	\$0.00		\$50.00	\$50.00	\$50.00	\$0.00
01	5015	445		Sheriff Department Office Supplies	\$3,500.00		\$100.00	\$3,600.00	\$3,534.29	\$65.71
01	5015	563		Postage for Tax Bills	\$2,500.00		\$405.54	\$2,905.54	\$2,905.54	\$0.00

Governor's Office for Local Development
County Financial Reporting

Expenditures

01	5015	566	Sheriff's Dept.-Reimbursement	\$0.00	\$1,236.72	\$1,236.72	\$1,236.72	\$0.00
01	5015	573	Sheriff Department Telephone	\$3,750.00	\$600.00	\$600.00	\$4,350.00	\$67.44
01	5015	735	Sheriff Department-Vehicles	\$0.00	\$14,300.00	\$14,300.00	\$14,300.00	\$0.00
01	5025	101	Magistrate Salaries	\$60,000.00	\$2,900.00	\$62,900.00	\$62,862.12	\$37.88
01	5025	125	Recording of Fiscal Court Minutes	\$2,400.00	\$2,400.00	\$4,800.00	\$4,000.00	\$800.00
01	5025	185	Fiscal Court - Other Sal. & Wages	\$0.00	\$39.97	\$39.97	\$39.97	\$0.00
01	5025	210	Magistrate Expense Allowances	\$14,400.00	\$0.00	\$14,400.00	\$14,400.00	\$0.00
01	5030	367	PVA Statutory Contribution	\$29,500.00	\$2,840.00	\$32,340.00	\$32,340.00	\$0.00
01	5030	573	PVA Telephone	\$2,100.00	\$700.00	\$2,800.00	\$2,712.16	\$87.84
01	5035	191	Board of Assessment Appeals	\$2,000.00	\$0.00	\$2,000.00	\$2,000.00	\$0.00
01	5040	102	County Treasurer Salary	\$40,000.00	\$4,700.00	\$44,700.00	\$44,615.34	\$84.66
01	5040	185	Co. Treasurer - Other Sal. & Wage	\$0.00	\$10.90	\$10.90	\$10.90	\$0.00
01	5057	129	Computer Programmer	\$0.00	\$27,000.00	\$27,000.00	\$26,624.00	\$376.00
01	5060	101	County Law Librarian	\$600.00	\$0.00	\$600.00	\$0.00	\$600.00
01	5065	192	Election Officers	\$21,000.00	\$0.00	\$21,000.00	\$19,325.00	\$1,675.00
01	5065	193	Election Commissioners	\$2,900.00	\$2,980.00	\$5,880.00	\$5,880.00	\$0.00
01	5065	347	Election Polling Places	\$2,200.00	\$11,236.41	\$13,436.41	\$13,401.41	\$35.00
01	5065	565	Printing & Miscellaneous for Electic	\$11,500.00	\$0.00	\$11,500.00	\$0.00	\$11,500.00
01	5065	573	Election Precinct Telephone	\$0.00	\$1,000.00	\$1,000.00	\$869.19	\$130.81
01	5076	304	Land Appraisal	\$0.00	\$2,000.00	\$2,000.00	\$2,000.00	\$0.00
01	5080	323	Courthouse Engineering Service	\$0.00	\$2,000.00	\$2,000.00	\$2,000.00	\$0.00
01	5080	329	Janitorial Services	\$16,800.00	\$0.00	\$16,800.00	\$15,700.00	\$1,100.00
01	5080	333	Maintenance Agreements	\$2,400.00	\$3,000.00	\$5,400.00	\$4,357.49	\$1,042.51
01	5080	406	Building Maintenance Supplies	\$6,500.00	\$6,900.00	\$13,400.00	\$12,844.99	\$555.01
01	5080	411	Custodial Supplies	\$4,000.00	\$500.00	\$4,500.00	\$3,987.29	\$512.71
01	5080	499	Other Supplies & Materials	\$1,000.00	\$0.00	\$1,000.00	\$222.64	\$777.36
01	5080	563	Postage	\$900.00	\$0.00	\$900.00	\$0.00	\$900.00
01	5080	573	AOC Telephones	\$1,000.00	\$0.00	\$1,000.00	\$254.84	\$745.16
01	5080	576	Travel	\$500.00	\$0.00	\$500.00	\$0.00	\$500.00
01	5080	578	Utilities	\$24,500.00	\$1,000.00	\$25,500.00	\$24,778.18	\$721.82
01	5081	107	Maintenance Supervisor	\$28,080.00	\$2,100.00	\$30,180.00	\$30,160.00	\$20.00
01	5081	175	Judicial Center Janitors	\$43,680.00	\$7,000.00	\$50,680.00	\$50,510.35	\$169.65
01	5081	185	Judicial Center - Other Sal. & Wagi	\$0.00	\$87.46	\$87.46	\$87.46	\$0.00
01	5081	333	Judicial Center - Maint. Agreement	\$0.00	\$4,470.00	\$4,470.00	\$3,512.00	\$958.00
01	5081	406	Judicial Center - Maint. Materials	\$0.00	\$23,500.00	\$23,500.00	\$22,802.78	\$697.22
01	5081	411	Judicial Center Janitorial Supplies	\$0.00	\$7,200.00	\$7,200.00	\$4,940.67	\$2,259.33
01	5081	573	Telephone Lines - AOC	\$0.00	\$2,500.00	\$2,500.00	\$2,119.28	\$380.72
01	5081	578	Judicial Center Utilities	\$45,750.00	\$2,250.00	\$48,000.00	\$47,424.62	\$575.38
01	5081	739	Judicial Center - Equipment	\$0.00	\$12,330.60	\$12,330.60	\$12,270.58	\$60.02
01	5315	467	Little League Uniforms	\$0.00	\$2,552.57	\$2,552.57	\$2,552.57	\$0.00
01	5315	595	Scholarship Program-WYMT	\$1,000.00	\$1,000.00	\$2,000.00	\$2,000.00	\$0.00

Governor's Office for Local Development
County Financial Reporting

Expenditures

01	5330	515	General Charity & Welfare	\$0.00	\$600.00	\$600.00	\$600.00	\$0.00
01	5425	467	Veterans Plaques	\$0.00	\$40.70	\$40.70	\$40.70	\$0.00
01	7500	603	KARP Principal	\$615,000.00	\$0.00	\$615,000.00	\$0.00	\$615,000.00
01	7500	607	KARP Interest	\$3,750.00	\$0.00	\$3,750.00	\$0.00	\$3,750.00
01	7502	603	Finance Director Veh. - Principal	\$0.00	\$200.00	\$200.00	\$117.34	\$82.66
01	7600	699	Debt Service-Fern Taylor	\$3,172.00	\$122.00	\$3,294.00	\$3,294.00	\$0.00
01	7700	602	Judge/Executive's Veh.-Principal	\$7,866.00	\$4.00	\$7,870.00	\$7,869.11	\$0.89
01	7700	606	Judge/Executive's Veh. -Interest	\$381.00	\$0.00	\$381.00	\$377.89	\$3.11
01	9100	307	Audit Services	\$10,000.00	\$65,000.00	\$75,000.00	\$36,374.03	\$38,625.97
01	9100	525	Property and Liability Insurance	\$135,500.00	\$125,657.00	\$261,157.00	\$261,157.00	\$0.00
01	9100	531	Bonds for Officials	\$500.00	\$2,933.36	\$3,433.36	\$3,288.61	\$144.75
01	9100	551	KCJEA/KMCA Dues	\$1,700.00	\$1,500.00	\$3,200.00	\$3,163.63	\$36.37
01	9100	555	KACO Dues	\$900.00	\$900.00	\$1,800.00	\$1,800.00	\$0.00
01	9100	558	Coal County Coalition	\$3,000.00	\$0.00	\$3,000.00	\$3,000.00	\$0.00
01	9200	999	Reserve for Transfers	\$121,730.00	-\$549,961.38	\$17,401.53	\$0.00	\$17,401.53
01	9400	201	Social Security (OAS)	\$30,000.00	\$8,500.00	\$38,500.00	\$33,289.63	\$5,210.37
01	9400	202	Retirement Contribution	\$42,651.00	\$56,071.17	\$98,722.17	\$98,062.67	\$659.50
01	9400	204	Life Insurance	\$6,000.00	\$2,000.00	\$8,000.00	\$7,521.95	\$478.05
01	9400	205	Health Insurance	\$165,000.00	\$113,200.00	\$278,200.00	\$278,146.56	\$53.44
01	9400	206	Dental Insurance	\$9,500.00	\$2,210.00	\$11,710.00	\$11,705.83	\$4.17
01	9400	208	Unemployment Insurance	\$6,000.00	\$648.37	\$6,648.37	\$6,648.37	\$0.00
01	9400	209	Worker's Compensation	\$19,142.00	\$9,820.41	\$28,962.41	\$28,962.41	\$0.00
01	9400	212	HB810 Training Pay	\$1,000.00	\$0.00	\$1,000.00	\$0.00	\$1,000.00
02	6105	102	Road Supervisor's Salary	\$27,671.00	\$2,100.00	\$29,771.00	\$29,734.75	\$36.25
02	6105	107	Bridge Foreman Salary	\$27,671.00	-\$10,635.12	\$17,035.88	\$17,035.88	\$0.00
02	6105	143	Road Workers Salaries	\$410,000.00	\$41,322.53	\$451,322.53	\$432,127.81	\$19,194.72
02	6105	185	Road Maint - Other Sal. & Wages	\$0.00	\$506.23	\$506.23	\$506.23	\$0.00
02	6105	311	Contracted Construction-Roads	\$0.00	\$124,565.00	\$124,565.00	\$124,565.00	\$0.00
02	6105	312	Contracted Construction-Bridges	\$0.00	\$125,810.00	\$125,810.00	\$125,810.00	\$0.00
02	6105	405	Blacktop	\$0.00	\$303,777.92	\$303,777.92	\$303,777.92	\$0.00
02	6105	411	Janitorial Supplies	\$2,200.00	\$0.00	\$2,200.00	\$416.66	\$1,783.34
02	6105	445	Office Supplies	\$0.00	\$2,500.00	\$2,500.00	\$2,417.98	\$82.02
02	6105	447	Road Materials	\$10,000.00	\$39,878.52	\$49,878.52	\$46,153.41	\$3,725.11
02	6105	499	Other Materials and Supplies	\$1,000.00	\$9,000.00	\$10,000.00	\$8,891.69	\$1,108.31
02	6105	573	Telephone	\$2,850.00	\$500.00	\$3,350.00	\$3,145.21	\$204.79
02	6105	578	Utilities	\$5,250.00	\$500.00	\$5,750.00	\$5,374.49	\$375.51
02	6105	703	Communication Equipment	\$24,000.00	\$1,010.00	\$25,010.00	\$25,005.00	\$5.00
02	6105	731	Right of Way	\$500.00	\$500.00	\$1,000.00	\$627.96	\$372.04
02	6107	447	Emergency Money - 3% CRA	\$21,500.00	\$0.00	\$21,500.00	\$0.00	\$21,500.00
02	7200	601	Road Bond Issue-Principal	\$80,000.00	\$0.00	\$80,000.00	\$80,000.00	\$0.00
02	7200	605	Road Bond Issue-Interest	\$9,075.00	\$0.00	\$9,075.00	\$8,361.19	\$713.81

Governor's Office for Local Development
County Financial Reporting

Expenditures

02	7500	603	KARP Principal	\$135,000.00	\$0.00	\$135,000.00	\$0.00	\$135,000.00
02	7500	607	KARP Interest	\$975.00	\$0.00	\$975.00	\$0.00	\$975.00
02	7700	602	Equipment Lease Purchases-Princ	\$12,156.00	\$3.00	\$12,159.00	\$12,158.97	\$0.03
02	7700	606	Equipment Lease Purchases-Intere	\$1,108.00	\$0.00	\$1,108.00	\$1,104.87	\$3.13
02	9200	999	Reserve for Transfers	\$81,887.00	-\$832,655.88	\$0.00	\$0.00	\$0.00
02	9400	201	Social Security Contribution	\$33,819.00	\$0.00	\$33,819.00	\$32,731.53	\$1,087.47
02	9400	202	Retirement Contribution	\$48,861.00	\$5,000.00	\$53,861.00	\$49,462.71	\$4,398.29
02	9400	204	Life Insurance	\$4,000.00	\$1,000.00	\$5,000.00	\$4,425.34	\$574.66
02	9400	205	Health Insurance	\$115,000.00	\$38,000.00	\$153,000.00	\$149,759.09	\$3,240.91
02	9400	206	Dental Insurance	\$7,000.00	\$200.00	\$7,200.00	\$6,810.20	\$389.80
02	9400	208	Unemployment Insurance	\$16,000.00	-\$9,095.92	\$6,904.08	\$6,904.08	\$0.00
02	9400	209	Workers' Compensation	\$30,627.00	\$315.82	\$30,942.82	\$30,942.82	\$0.00
02	9500	342	HUD/FEMA Road Repairs Match	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
03	5101	101	Jailer's Salary	\$49,556.00	\$1,906.00	\$51,462.00	\$51,461.46	\$0.54
03	5101	103	Deputy Jailer Salaries	\$45,000.00	-\$41,346.50	\$3,653.50	\$3,653.50	\$0.00
03	5101	185	Jailer - Other Sal. & Wages	\$0.00	\$100.18	\$100.18	\$100.18	\$0.00
03	5101	333	Maintenance Agreements	\$400.00	\$100.00	\$500.00	\$420.00	\$80.00
03	5101	334	Building Maintenance	\$500.00	\$0.00	\$500.00	\$0.00	\$500.00
03	5101	336	Equipment Maintenance/Repairs	\$500.00	\$1,500.00	\$2,000.00	\$1,657.00	\$343.00
03	5101	340	Vehicle Maintenance and Repairs	\$1,500.00	-\$1,500.00	\$0.00	\$0.00	\$0.00
03	5101	411	Janitorial Supplies	\$500.00	\$0.00	\$500.00	\$0.00	\$500.00
03	5101	445	Office Supplies	\$300.00	\$1,500.00	\$2,000.00	\$1,226.82	\$773.18
03	5101	465	Inmate Clothing	\$500.00	\$0.00	\$500.00	\$0.00	\$500.00
03	5101	499	Other Materials & Supplies	\$500.00	\$0.00	\$500.00	\$7.70	\$492.30
03	5101	549	Medical Services	\$0.00	\$125,000.00	\$125,000.00	\$124,760.02	\$239.98
03	5101	573	Telephone	\$4,000.00	-\$1,000.00	\$3,000.00	\$2,270.24	\$729.76
03	5101	576	Travel	\$500.00	\$0.00	\$500.00	\$0.00	\$500.00
03	5101	578	Utilities	\$17,000.00	-\$9,500.00	\$7,500.00	\$6,719.29	\$780.71
03	5102	314	Contracts with Government Agenci	\$240,000.00	\$178,300.00	\$418,300.00	\$418,229.86	\$70.14
03	7500	603	Bank of New York - Principal	\$30,000.00	\$0.00	\$30,000.00	\$30,000.00	\$0.00
03	7500	607	Bank of New York - Interest	\$8,688.00	\$0.00	\$8,688.00	\$8,437.50	\$250.50
03	7600	601	KY River Reg Jail Bond Prin	\$0.00	\$38,750.00	\$38,750.00	\$38,750.00	\$0.00
03	7600	605	KY River Reg Jail Bond Int	\$0.00	\$64,813.58	\$64,813.58	\$64,813.58	\$0.00
03	9100	551	Association Dues	\$300.00	\$0.00	\$300.00	\$0.00	\$300.00
03	9100	569	Staff Training	\$300.00	\$0.00	\$300.00	\$0.00	\$300.00
03	9200	999	Reserve for Transfers	\$64,901.00	-\$66,780.89	\$0.00	\$0.00	\$0.00
03	9400	201	Social Security (OAS)	\$7,200.00	-\$3,000.00	\$4,200.00	\$3,858.35	\$341.65
03	9400	202	Retirement Contribution	\$9,400.00	-\$2,900.00	\$6,500.00	\$6,441.20	\$58.80
03	9400	204	Life Insurance	\$300.00	\$100.00	\$400.00	\$342.30	\$57.70
03	9400	205	Health Insurance	\$12,000.00	\$19,000.00	\$31,000.00	\$29,442.56	\$1,557.44
03	9400	206	Dental Insurance	\$900.00	\$0.00	\$900.00	\$882.34	\$17.66

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03	9400	208	Unemployment Insurance	\$0.00	\$1,789.95	\$1,789.95	\$1,789.95	\$0.00
03	9400	209	Workers' Compensation	\$9,500.00	-\$4,832.32	\$4,667.68	\$3,130.95	\$1,536.73
03	9400	212	HB810 Training Pay	\$750.00	\$0.00	\$750.00	\$0.00	\$750.00
04	5015	507	Sheriff Department Assistance	\$100,000.00	\$217,000.00	\$317,000.00	\$316,446.59	\$553.41
04	5020	101	Coroner Salary	\$13,401.00	\$516.00	\$13,917.00	\$13,915.53	\$1.47
04	5020	103	Deputy Coroner Salaries	\$6,000.00	\$231.00	\$6,231.00	\$6,230.52	\$0.48
04	5020	185	Coroner - Other Sal. & Wages	\$0.00	\$131.40	\$131.40	\$131.40	\$0.00
04	5020	210	Coroner-Travel Expenses	\$3,600.00	\$600.00	\$4,200.00	\$4,167.45	\$32.55
04	5020	308	Autopsy Services	\$1,150.00	\$3,100.00	\$4,250.00	\$3,200.00	\$1,050.00
04	5020	445	Coroner Office Supplies	\$1,000.00	\$5,900.00	\$6,900.00	\$6,512.01	\$387.99
04	5020	723	Coroner Vehicle	\$0.00	\$33,373.98	\$33,373.98	\$33,373.98	\$0.00
04	5076	105	Special Projects Assistant	\$18,601.00	\$0.00	\$18,601.00	\$2,861.56	\$15,739.44
04	5076	106	Grant Procurement Specialist	\$23,920.00	\$0.00	\$23,920.00	\$10,480.00	\$13,440.00
04	5076	185	Comm. Dev. - Other Sal. & Wages	\$0.00	\$2.50	\$2.50	\$2.50	\$0.00
04	5076	445	Office Supplies - Grant Specialist	\$0.00	\$400.00	\$400.00	\$341.08	\$58.92
04	5076	573	Telephone - Grant Specialist	\$0.00	\$800.00	\$800.00	\$505.11	\$294.89
04	5110	101	Constable Salaries	\$19,201.00	\$738.00	\$19,939.00	\$19,938.96	\$0.04
04	5110	185	Constable - Other Sal. & Wages	\$0.00	\$81.98	\$81.98	\$81.98	\$0.00
04	5110	398	Service of Summons & Citations	\$0.00	\$7,500.00	\$7,500.00	\$3,360.00	\$4,140.00
04	5120	507	Fire Department Contracts	\$26,000.00	\$0.00	\$26,000.00	\$23,500.00	\$2,500.00
04	5120	507 A	Fire Department Grant Funds	\$90,000.00	\$0.00	\$90,000.00	\$0.00	\$90,000.00
04	5121	521	Fire Insurance	\$0.00	\$45,023.22	\$45,023.22	\$45,021.96	\$1.26
04	5121	574	Volunteer Firefighter Training	\$0.00	\$500.00	\$500.00	\$500.00	\$0.00
04	5130	507	Rescue Squad Contributions	\$2,500.00	\$2,985.00	\$5,485.00	\$4,571.00	\$914.00
04	5135	105	Asst. EM Director - FEMA	\$23,920.00	\$1,920.00	\$25,840.00	\$25,840.00	\$0.00
04	5135	107	EM Director Salary	\$28,340.00	\$2,090.00	\$30,430.00	\$30,430.00	\$0.00
04	5135	185	Dis. & Emer. - Other Sal. & Wages	\$0.00	\$98.81	\$98.81	\$98.81	\$0.00
04	5135	445	EMS - Office Supplies	\$2,400.00	\$6,500.00	\$8,900.00	\$8,027.14	\$872.86
04	5135	573	EM - Telephone	\$2,800.00	\$1,500.00	\$4,300.00	\$3,737.53	\$562.47
04	5135	574	EM - Management Training	\$0.00	\$501.30	\$501.30	\$501.30	\$0.00
04	5135	725	EM - Office Equipment	\$0.00	\$475.00	\$475.00	\$475.00	\$0.00
04	5140	723	New Ambulance (Grant Share)	\$12,000.00	\$0.00	\$12,000.00	\$0.00	\$12,000.00
04	5140	739	Ambulance Medical Equipment	\$0.00	\$20,705.35	\$20,705.35	\$20,705.35	\$0.00
04	5175	903	Public Defender	\$2,239.00	\$0.00	\$2,239.00	\$2,206.00	\$33.00
04	5205	102	Dog Warden	\$22,360.00	\$0.00	\$22,360.00	\$18,820.00	\$3,540.00
04	5205	340	Vehicle Repairs	\$500.00	\$0.00	\$500.00	\$0.00	\$500.00
04	5205	399	Animal Shelter Support	\$15,000.00	\$0.00	\$15,000.00	\$15,000.00	\$0.00
04	5205	445	Dog Warden-Office Supplies	\$200.00	\$0.00	\$200.00	\$0.00	\$200.00
04	5205	531	Dog Warden Bond for Official	\$0.00	\$111.65	\$111.65	\$111.65	\$0.00
04	5205	573	Dog Warden-Telephone	\$600.00	\$0.00	\$600.00	\$421.99	\$178.01
04	5212	105	Ecology Officer Assistant	\$0.00	\$3,500.00	\$3,500.00	\$1,717.50	\$1,782.50

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04	5212	106	Ecology Officer Salary	\$29,560.00	\$2,200.00	\$31,760.00	\$31,696.84	\$63.16
04	5212	185	Solid Waste - Other Sal. & Wages	\$0.00	\$138.02	\$138.02	\$138.02	\$0.00
04	5212	302	Ecology Officer Advertising	\$0.00	\$4,520.00	\$4,520.00	\$4,520.00	\$0.00
04	5212	348	Southern Appalachian Recycling	\$5,000.00	\$0.00	\$5,000.00	\$5,000.00	\$0.00
04	5212	445	Ecology Office Supplies	\$1,000.00	\$0.00	\$1,000.00	\$847.24	\$152.76
04	5212	468	County Cleanups-Tippage Fees	\$10,000.00	\$0.00	\$10,000.00	\$6,159.32	\$3,840.68
04	5212	515	Ecology Office General Welfare	\$0.00	\$2,709.23	\$2,709.23	\$2,709.23	\$0.00
04	5212	573	Ecology Office Telephone	\$1,000.00	\$0.00	\$1,000.00	\$947.52	\$52.48
04	5212	576	Travel	\$0.00	\$140.90	\$140.90	\$140.90	\$0.00
04	5220	743 A	Knott County Water District Project	\$1,504,881.00	\$0.00	\$1,504,881.00	\$0.00	\$1,504,881.00
04	5220	743 C	New Water Plant on Carr Fork Lake	\$2,000,000.00	\$0.00	\$2,000,000.00	\$0.00	\$2,000,000.00
04	5235	548	Stream/Dump Cleanup	\$0.00	\$38,382.00	\$38,382.00	\$38,094.02	\$287.98
04	5305	106	Senior Citizens Program Wages	\$108,000.00	\$51,000.00	\$159,000.00	\$153,701.09	\$5,298.91
04	5305	185	Senior Cit. - Other Sal. & Wages	\$0.00	\$186.72	\$186.72	\$186.72	\$0.00
04	5305	340	Senior Citizens Vehicle Maintenance	\$2,000.00	\$0.00	\$2,000.00	\$0.00	\$2,000.00
04	5305	425	Senior Citizens Program Food	\$75,780.00	\$37,220.00	\$113,000.00	\$112,613.64	\$386.36
04	5305	507	Senior Citizens Program Support	\$1,350.00	\$30,500.00	\$31,850.00	\$31,414.75	\$435.25
04	5305	723	Senior Citizens Program Vehicles	\$0.00	\$3,650.40	\$3,650.40	\$3,650.40	\$0.00
04	5315	348	Youth Activities Support	\$0.00	\$5,000.00	\$5,000.00	\$950.00	\$4,050.00
04	5315	467	Youth Activities Supplies	\$0.00	\$3,000.00	\$3,000.00	\$2,952.40	\$47.60
04	5330	344	Pauper Burials	\$500.00	\$1,600.00	\$2,100.00	\$2,100.00	\$0.00
04	5330	366	Solid Waste Assistance	\$0.00	\$2,356.44	\$2,356.44	\$2,356.44	\$0.00
04	5330	515	General Charity	\$500.00	\$0.00	\$500.00	\$0.00	\$500.00
04	5401	107	County Parks Director	\$27,671.00	\$2,064.00	\$29,735.00	\$29,734.75	\$0.25
04	5401	107 B	Youth Activities Director	\$0.00	\$15,000.00	\$15,000.00	\$14,400.00	\$600.00
04	5401	143	Parks Department Wages	\$110,000.00	\$18,000.00	\$128,000.00	\$124,769.58	\$3,230.42
04	5401	144	Public Works Coordinator	\$22,360.00	\$1,860.00	\$24,220.00	\$24,220.00	\$0.00
04	5401	185	Parks - Other Sal. & Wages	\$0.00	\$173.83	\$173.83	\$173.83	\$0.00
04	5401	348	County Parks Maintenance	\$12,500.00	\$14,000.00	\$26,500.00	\$25,482.08	\$1,017.92
04	5401	573	County Parks Telephone	\$1,800.00	\$500.00	\$2,300.00	\$1,969.63	\$330.37
04	5401	578	County Parks Utilities	\$12,000.00	\$6,000.00	\$18,000.00	\$17,258.05	\$741.95
04	5401	586	Upper Carr Community Center	\$2,500.00	\$0.00	\$2,500.00	\$2,500.00	\$0.00
04	5401	718 A	Right Beaver/Caney/Carr Creek Park	\$250,000.00	-\$250,000.00	\$0.00	\$0.00	\$0.00
04	5401	718 C	Various Park Projects-\$10,000 Grant	\$55,000.00	-\$55,000.00	\$0.00	\$0.00	\$0.00
04	5401	718 D	Knott County Youth Foundation Park	\$250,000.00	-\$60,927.00	\$189,073.00	\$49,099.54	\$139,973.46
04	5401	721	County Parks Equipment	\$0.00	\$5,000.00	\$5,000.00	\$4,714.37	\$285.63
04	5401	723	Vehicles- Parks	\$0.00	\$16,699.00	\$16,699.00	\$16,699.00	\$0.00
04	5405	106	Human Svcs. Center-Salaries/Wages	\$40,020.00	\$24,000.00	\$64,020.00	\$60,368.02	\$3,651.98
04	5405	107	Human Svcs. Center Director Salary	\$30,060.00	\$2,200.00	\$32,260.00	\$32,216.05	\$43.95
04	5405	185	Other Rec Prog - Other Sal. & Wages	\$0.00	\$53.31	\$53.31	\$53.31	\$0.00
04	5405	333	HSC Maintenance Agreements	\$2,500.00	\$1,300.00	\$3,800.00	\$3,352.93	\$447.07

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04	5405	334	HSC Building Maintenance	\$65,000.00	\$0.00	\$65,000.00	\$13,769.86	\$51,230.14
04	5405	340	HSC-Vehicle Repairs	\$500.00	\$0.00	\$500.00	\$288.27	\$211.73
04	5405	411	HSC Janitorial Supplies	\$1,500.00	\$1,300.00	\$2,800.00	\$2,743.24	\$56.76
04	5405	445	HSC Office Supplies	\$6,500.00	\$0.00	\$6,500.00	\$5,575.27	\$924.73
04	5405	467	HSC Recreational Supplies	\$5,500.00	\$0.00	\$5,500.00	\$169.99	\$5,330.01
04	5405	499	HSC Other Materials	\$1,000.00	\$2,000.00	\$3,000.00	\$2,791.05	\$208.95
04	5405	573	HSC Telephone	\$3,500.00	\$500.00	\$4,000.00	\$3,894.92	\$105.08
04	5405	576	Travel	\$500.00	\$3,621.11	\$4,121.11	\$3,604.86	\$516.25
04	5405	578	HSC Utilities	\$22,500.00	\$0.00	\$22,500.00	\$20,552.09	\$1,947.91
04	5405	723	HSC Vehicle Expense	\$0.00	\$154.00	\$154.00	\$67.00	\$87.00
04	5410	105	Library - Other Sal. & Wages	\$0.00	\$1.39	\$1.39	\$1.39	\$0.00
04	5410	106	Library Assistant Wages	\$31,200.00	\$3,500.00	\$34,700.00	\$34,484.60	\$215.40
04	5410	185	Public Librarian Salary	\$20,800.00	\$1,800.00	\$22,600.00	\$22,600.00	\$0.00
04	5410	541	Public Library Support	\$0.00	\$83,251.31	\$83,251.31	\$79,790.78	\$3,460.53
04	5410	607	Public Library Interest Exp.	\$0.00	\$1,287.03	\$1,287.03	\$1,287.03	\$0.00
04	5410	107	Public Relations Tourism Dir	\$0.00	\$15,360.00	\$15,360.00	\$15,360.00	\$0.00
04	5420	348	Tourism Program Support	\$0.00	\$1,500.00	\$1,500.00	\$1,500.00	\$0.00
04	5420	507	Tourism Committee Support	\$500.00	\$336.00	\$836.00	\$836.00	\$0.00
04	5420	573	Pub Relations Tourism Telephone	\$0.00	\$100.00	\$100.00	\$45.28	\$54.72
04	5425	348	Festivals & Celebrations	\$4,500.00	\$3,000.00	\$7,500.00	\$7,310.00	\$190.00
04	6105	311	Contracted Construction-Roads	\$0.00	\$284,477.23	\$284,477.23	\$284,477.23	\$0.00
04	6105	312	Contracted Construction-Bridges	\$0.00	\$141,996.00	\$141,996.00	\$141,996.00	\$0.00
04	6105	364	Land Rents - County Garage	\$0.00	\$7,450.00	\$7,450.00	\$7,440.00	\$10.00
04	6105	441	Machinery and Equipment	\$0.00	\$2,000.00	\$2,000.00	\$2,000.00	\$0.00
04	6105	443	Motor Vehicle and Equipment Part:	\$60,000.00	\$1,000.00	\$61,000.00	\$60,573.07	\$426.93
04	6105	447	Road Materials & Supplies	\$345,000.00	-\$58,691.10	\$286,308.90	\$285,692.12	\$616.78
04	6105	455	Petroleum Products	\$100,000.00	\$40,000.00	\$140,000.00	\$137,976.62	\$2,023.38
04	6105	713	Highway/Road Equipment	\$0.00	\$17,683.36	\$17,683.36	\$17,609.81	\$73.55
04	7500	603	Equipment Prin. Payments	\$0.00	\$30,587.25	\$30,587.25	\$30,438.24	\$149.01
04	7500	607	Equipment Interest	\$0.00	\$5,326.00	\$5,326.00	\$5,274.26	\$51.74
04	7700	602	EM Vehicle - Principal	\$4,827.00	\$10.00	\$4,837.00	\$4,827.97	\$9.03
04	7700	603	SC Van-Lease Purch., Principal	\$3,953.00	\$10.00	\$3,963.00	\$3,954.42	\$8.58
04	7700	606	EM Vehicle - Interest	\$621.00	\$0.00	\$621.00	\$620.03	\$0.97
04	7700	607	SC Van-Lease Purch., Interest	\$672.00	\$0.00	\$672.00	\$553.76	\$118.24
04	8003	741	Bridge Construction	\$90,000.00	-\$50,000.00	\$40,000.00	\$34,800.07	\$5,199.93
04	9100	525	Property/Liability Ins.- Incl. Fire Dpi	\$152,382.00	-\$152,382.00	\$0.00	\$0.00	\$0.00
04	9100	531	Bonds for Officials	\$4,500.00	\$0.00	\$4,500.00	\$4,431.63	\$68.37
04	9100	553	KRADD Dues	\$0.00	\$12,755.00	\$12,755.00	\$12,755.00	\$0.00
04	9200	999	Reserve for Transfers	\$339,295.00	\$1,526,440.71	\$756,191.09	\$0.00	\$756,191.09
04	9400	201	Social Security (OAS)	\$41,818.00	\$5,800.00	\$47,618.00	\$46,467.96	\$1,150.04
04	9400	202	Retirement Contribution	\$60,418.00	\$8,000.00	\$68,418.00	\$68,230.72	\$187.28

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04	9400	204	Life Insurance	\$4,500.00				\$7,500.00	\$6,735.80	\$764.20
04	9400	205	Health Insurance	\$175,000.00				\$259,972.81	\$257,972.81	\$1,027.19
04	9400	206	Dental Insurance	\$9,500.00				\$9,500.00	\$9,359.13	\$140.87
04	9400	208	Unemployment Insurance	\$15,000.00				\$15,000.00	\$9,461.14	\$5,538.86
04	9400	209	Workers' Compensation	\$44,096.00				\$44,096.00	\$42,804.52	\$1,291.48
06	5130	507	Fire & Rescue Squad Support	\$0.00				\$60,000.00	\$13,255.41	\$46,744.59
06	5220	348	Water System-Program Support	\$0.00				\$50,000.00	\$50,000.00	\$0.00
06	5340	315	Drug Abuse Council Support	\$0.00				\$32,924.10	\$27,179.51	\$5,744.59
06	5401	305	Knott Youth Ctr Architect Service	\$0.00				\$160,000.00	\$122,061.04	\$37,938.96
06	5401	334	Park Building Maint & Repairs	\$0.00				\$18,700.00	\$18,685.16	\$14.84
06	5405	334	HSC Building Maint Project	\$0.00				\$100,000.00	\$96,733.90	\$3,266.10
06	5410	348	Public Library Support	\$0.00				\$27,120.78	\$23,048.48	\$4,072.30
06	5435	348	Small Business Capitalization	\$500,000.00				\$500,000.00	\$500,000.00	\$0.00
06	5435	742	Arts/Crafts Buildings & Const	\$0.00				\$129,000.00	\$53,600.00	\$75,400.00
06	8001	305	Building Architect Services	\$0.00				\$306,857.62	\$289,357.62	\$17,500.00
06	8001	742	KC Youth Development Center	\$600,000.00				\$204,542.38	\$204,177.27	\$365.11
06	8099	323	Engineering Services	\$0.00				\$13,738.50	\$13,738.50	\$0.00
06	9200	999	Reserve for Transfers	\$200,000.00			\$537,186.36	\$234,302.98	\$0.00	\$234,302.98
07	9200	999	Reserve for Transfers	\$500.00			\$45.98	\$0.00	\$0.00	\$545.98
08	5135	599	Emergency Services Misc.	\$0.00				\$9.81	\$9.81	\$0.00
08	9200	999	Reserve for Transfers	\$500.00			\$5,461.93	\$5,952.12	\$0.00	\$5,952.12
12	5150	513	Forest Fire Prevention	\$5,095.00				\$5,095.00	\$0.00	\$5,095.00
12	9200	999	Reserve for Transfers	\$0.00			\$2,744.60	\$2,744.60	\$0.00	\$2,744.60
75	5135	551	Emergency Management Members	\$0.00				\$95.00	\$95.00	\$0.00
75	5145	105	Assistant Coordinator Salaries	\$47,760.00				\$31,760.00	\$29,105.00	\$2,655.00
75	5145	106	E-911 Coordinator Salary	\$0.00				\$0.00	\$0.00	\$0.00
75	5145	185	Emer Dis Serv - Other Sal. & Wage	\$0.00				\$47.74	\$47.74	\$0.00
75	5145	314	Regional Program Support	\$36,000.00				\$42,100.00	\$78,097.07	\$2.93
75	5145	315	Contracts with Private Agency-Pag	\$0.00				\$1,200.00	\$1,200.00	\$0.00
75	5145	333	Maintenance Agreements	\$5,000.00				\$750.00	\$5,715.00	\$35.00
75	5145	340	Vehicle Maintenance	\$750.00				\$750.00	\$22.48	\$727.52
75	5145	445	Office Supplies	\$5,000.00				\$1,500.00	\$6,407.74	\$92.26
75	5145	499	Other Materials & Supplies	\$1,000.00				\$1,000.00	\$132.28	\$867.72
75	5145	573	Telephone	\$13,500.00				\$1,500.00	\$14,905.25	\$94.75
75	5145	573	Travel	\$500.00				\$500.00	\$10.00	\$490.00
75	5145	703	Communication Equipment	\$2,000.00				\$2,000.00	\$0.00	\$2,000.00
75	7500	603	Fifth Third Bank-Principal	\$10,000.00				\$10,000.00	\$10,000.00	\$0.00
75	7500	607	Fifth Third Bank- Interest	\$2,405.00				\$2,405.00	\$2,405.00	\$0.00
75	7700	603	Leased Vehicle - Principal	\$5,770.00				\$5,790.00	\$5,771.73	\$18.27
75	7700	607	Leased Vehicle - Interest	\$263.00				\$263.00	\$261.27	\$1.73
75	9200	999	Reserve for Transfers	\$5,466.00			\$7,303.74	\$5,702.58	\$0.00	\$5,702.58

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75	9400	201	Social Security (OAS)	\$3,471.00	\$0.00	\$3,471.00	\$2,043.65	\$1,427.35
75	9400	202	Retirement Contribution	\$5,015.00	\$0.00	\$5,015.00	\$3,223.35	\$1,791.65
75	9400	204	Life Insurance	\$400.00	\$0.00	\$400.00	\$267.50	\$132.50
75	9400	205	Health Insurance	\$8,000.00	\$0.00	\$8,000.00	\$7,132.41	\$867.59
75	9400	206	Dental Insurance	\$950.00	\$0.00	\$950.00	\$276.54	\$673.46
75	9400	208	Unemployment Insurance	\$0.00	\$767.12	\$767.12	\$767.12	\$0.00
75	9400	209	Workers Compensation	\$0.00	\$2,087.30	\$2,087.30	\$2,087.30	\$0.00
				\$11,596,872.00	\$3,277,465.00	\$14,874,337.00	\$8,806,829.81	\$6,067,507.19

Longterm Liabilities

Governor's Office for Local Development

County Financial Reporting

County Num	060	County Judge Exec	Randy Thompson	GOLDXL2
County Nam	Knott	County Treasurer	Byron Jacobs	4Q
FYBeginDate	07/01/2005	Date Submitted	07/20/2006	
FYEndDate	06/30/2006	System Date	2007-05-25 11:56:20	

Fund Code	Principal Major Object Code	Principal Minor Object Code	Principal Minor		Interest Major Object Code	Interest Minor Object Code	Minor Object Code	Issue Description	Issue Term
			Object Code	Suffix					
01			7600		699			FERN TAYLOR	522
01			7700		602	7700	606	VEHICLE	48
02			7200		601	7200	605	ROAD BONDS	84
02			7700		602	7700	606	DUMP TRUCK	48
03			7500		603	7500	607	JAIL REMODELING	84
03			7600		601	7600	605	KY RIV REGIONAL JAIL	294
04			7500		603	7500	607	GRADER	48
04			7700		602	7700	606	VEHICLE	48
04			7700		603	7700	607	VAN	48
75			7500		603	7500	607	PAGER PROJECT	84
75			7700		603	7700	607	VEHICLE	36

Longterm Liabilities

Interest Rate	Issue Date	Total Principal Amount	Total Interest Amount	Total Issue	Principal Balance Remaining	Interest Balance Remaining	Reserve Earnings	Total Outstanding	Next Payment Due Date	Final Payment Due Date
0.000%	1/1/1975	\$137,982.00	\$0.00	\$137,982.00	\$38,064.00	\$0.00	\$0.00	\$38,064.00	7/14/2006	6/30/2018
4.950%	12/6/2002	\$29,995.00	\$2,993.00	\$32,988.00	\$3,394.14	\$42.11		\$3,436.25	8/1/2006	12/1/2006
5.700%	8/1/2000	\$500,000.00	\$114,815.00	\$614,815.00	\$85,000.00	\$4,675.00		\$89,675.00	8/1/2006	2/1/2007
3.950%	1/30/2004	\$48,992.00	\$4,063.36	\$53,055.36	\$22,463.87	\$747.85		\$23,211.72	8/1/2006	3/4/2008
4.250%	5/7/2004	\$225,000.00	\$37,481.66	\$262,481.66	\$170,000.00	\$15,893.75		\$185,893.75	11/1/2006	5/1/2011
4.500%	6/1/2002	\$1,528,750.00	\$1,113,083.75	\$2,641,833.75	\$1,377,500.00	\$812,545.31		\$2,190,045.31	12/1/2006	12/1/2026
5.068%	9/23/2005	\$155,518.00	\$15,902.00	\$171,420.00	\$128,247.14	\$11,031.61		\$139,278.75	7/1/2006	8/23/2009
4.480%	10/4/2004	\$19,990.00	\$1,802.00	\$21,792.00	\$11,228.78	\$575.22		\$11,804.00	8/1/2006	8/1/2008
4.780%	4/1/2005	\$16,876.00	\$1,626.08	\$18,502.08	\$11,895.68	\$824.50		\$12,720.18	8/1/2006	3/31/2009
3.450%	10/20/2003	\$70,000.00	\$13,593.54	\$83,593.54	\$40,000.00	\$6,070.00		\$46,070.00	11/1/2006	5/1/2010
3.960%	10/28/2003	\$17,035.81	\$1,063.19	\$18,099.00	\$3,975.88	\$46.12		\$4,022.00	1/1/2006	2/4/2007

**KNOTT COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2006

**KNOTT COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2006

2006-01. Over \$8.2 Million In Public Funds Were Expended For The Knott County Youth Foundation By Fiscal Court Without A Formal Agreement Between The County And The Youth Center With \$2.7 Million Being Spent Without Land Ownership

Without any formal written agreement to document the transactions, Knott County Fiscal Court gave over \$8.2 million of county bond proceeds, and over \$2 million of county coal severance tax funds, to the Knott County Youth Foundation, Inc. (Foundation), a private, non-profit corporation, for a youth and recreation center project. Of this total amount of \$10.2 million of the county's public funds, \$2.7 million was spent by the private Foundation on the project before the private donor corporation that donated the land for the project had transferred ownership of the real property on which the project was to be built to either the fiscal court or the Foundation. On February 8, 2007, a deed transferring ownership of the land to the Foundation was recorded with the county clerk. A reversionary clause was included in the Foundation's deed that states, "if the Land and/or the Sports complex shall cease to be continuously used and properly maintained and landscaped as a public park, wellness center and/or recreation facility," at the donor corporation's option, it may cause the title to revert back to the donor corporation, and that the donor corporation will pay fair market value of the building and other improvements. The judge/executive stated that should this event occur, the fiscal court would receive the building proceeds; however, this is not so stated in the deed, which transferred title to the land from the private donor corporation to the private Foundation.

The Foundation is a private, non-profit corporation with a board of directors consisting of private citizens, including the county judge/executive and the county coroner. The judge/executive was the incorporator of the Foundation, and serves as both a director and the president of the Foundation. The county coroner serves as both a director and the secretary of the Foundation. Thus, the judge/executive, as a public official, serves, simultaneously, as both the chief executive of the county, a public, governmental entity, and as a private director and president of a private Foundation, which has received over \$10.2 million of the county's public funds without written agreements or other formal documents to support the financial transactions between the county and the Foundation. Also, a Sports Complex director and two night watchmen were hired and paid by the fiscal court for the center, with two of the three employees receiving full-time benefits.

The first year bond payments, beginning September 1, 2006, are being made from the county's bond sinking fund. According to the judge/executive, the fiscal court will be making the bond payments from the county's coal severance money from which the county would earmark \$500,000 per year. The continued availability of coal severance money is subject to actions of the General Assembly, and cannot be relied upon by the county as a continual revenue source. The per-year average of principal and interest payments to be made by the county over the 20-year bond is \$636,239.

Section 171 of the Kentucky Constitution does not permit a county to expend public funds for other than public purposes. We recommend the Attorney General and County Attorney review all transactions between the county and the Foundation relating to the Youth Center project to determine (1) whether the judge/executive's acting as both a county public official and a private corporation's president created any conflicts of interest, (2) whether actions of the judge/executive involving financial transactions of the county related to the Youth Center project comply with state laws, and (3) whether the fiscal court can lawfully fund recurring and operating costs of a facility owned by a private non-profit corporation, the Foundation, with no written agreement supporting such an arrangement. Additionally, the special warranty deed should be reviewed to determine the county's actual interest.

**KNOTT COUNTY
COMMENTS AND RECOMMENDATIONS
For the Year Ended June 30, 2006
(Continued)**

**2006-01. Over \$8.2 Million In Public Funds Were Expended For The Knott County Youth Foundation By Fiscal Court Without A Formal Agreement Between The County And The Youth Center With \$2.7 Million Being Spent Without Land Ownership
(Continued)**

We also recommend that the fiscal court enter into an agreement with the Foundation related to the Youth Center project to clearly define the oversight and applicability of purchasing walls and other administrative practices, namely, the provision of insurance. Further, the agreement should also provide for the ongoing maintenance, operations and staffing of the Youth Center project.

County Judge/Executive Randy Thompson's Response:

A formal written agreement between the Knott County Youth Foundation and the Knott County Fiscal Court has been signed. The agreement grants all proceeds derived from the sale of the Sportsplex and any and all improvements to the Knott Fiscal Court, in the event the donor corporation exercises its reversionary interest in the property. The Knott Fiscal Court, while being responsible for all recurring and operating costs, would be entitled to all profits derived from the Sportsplex project. It is worth noting that representatives in the legal arm of the Governor's Office for Local Development (GOLD) have advised the County that the agreement as described complies with all state laws.

Auditor's Reply:

We received a copy of the architectural contract directly from the contractor on April 25, 2007, as the county was unable to locate a copy. The architectural contract was dated June 1, 2005 and has had no modifications or renewals since. The formal written agreement adopted by the fiscal court on April 2, 2007, will be audited in the FYE 2006-2007 audit.

2006-02. Knott County Road Expenditures Totaling \$780,814 Could Not Be Validated

During our review of subsequent events occurring after July 1, 2006, we noted that invoices submitted by private contractors, to the Knott County Fiscal Court for paving work, from September 26, 2006 through January 23, 2007, did not contain enough detailed information to determine the validity of \$780,814 of county road expenditures. Due to the lack of records and detailed invoices, it is impossible to determine the number or location of roads paved. However, our limited testing determined that \$14,415 of county money was used to pave one private road. We also noted a 583% increase in paving expenditures for the first seven months of fiscal year 2007 over fiscal year 2006, and a 290% increase in the total amount spent on paving during the same seven month period over the combined prior three fiscal years (FY 2004, 2005 and 2006). This increase in paving was paid by using \$1.5 million of bond proceeds, and \$375,000 of Kentucky Transportation Cabinet (KTC) discretionary road funds.

The fiscal court used four road contractors to haul and lay asphalt. The total amount paid to these contractors was \$1,552,340. One road contractor, used to pave roads to be reimbursed by the KTC discretionary road funds, submitted detailed invoices that included specific road names, materials used, and dates of services provided. However, the three remaining contractors' invoices did not include these details about the roads that were paved, while two invoices totaling \$30,992 stated only an estimated amount of materials used.

**KNOTT COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2006
(Continued)**

**2006-02. Knott County Road Expenditures Totaling \$780,814 Could Not Be Validated
(Continued)**

Section 171 of the Kentucky Constitution does not permit a county to expend public funds for private purposes. Public funds may not be used to pave private roads. In order for the fiscal court to adopt a private road into the county road system, the court must approve the road by ordinance or resolution. Our testing noted one road, Lonesome Dove Lane that was not included on an ordinance or resolution approved by the fiscal court. Also, it should be noted this road was not included on a list of county roads provided by the KTC, or on a list of all public and private roads provided by the fiscal court's 911-Department. After the auditor met with the county judge/executive to discuss this finding on March 25, 2007, the fiscal court held an emergency meeting on April 2, 2007, where it adopted 552 roads into the county road system, including the road we noted above as private.

Due to the lack of specific details on paid invoices for paving, we have no confidence in the records to provide any assurance these funds were appropriately expended. Failure to properly monitor invoices could cause payment errors, duplicate payments, or fraudulent payments.

We recommend fiscal court require that invoices submitted by paving contractors for payment contain detailed information to determine the validity of the charges, including names of roads paved, materials used, dates, places, and description of services provided. Also, fiscal court should formally establish a county road program, and define a plan to specifically describe county roads or road segments, when to allow the adoption of private roads into the county road system, and list the details as to where and when roads are to be constructed and repaired, the nature and extent of such construction or repairs, and the precise method of such improvements including the basic time schedule of the improvements. Further, fiscal court should put an internal control system in place that requires detailed invoices to ensure compliance with laws and regulations and to safeguard its assets. Also, all road construction and road improvements should be accounted for and maintained for proper capital asset recording.

This matter will be referred to the Kentucky State Police, the County Attorney, and the Kentucky Transportation Cabinet for further investigation.

County Judge/Executive Randy Thompson's Response:

All roads that the Knott County Fiscal Court hired the contractors to pave were paved. To verify this, a county employee personally visited and inspected every single road while it was being paved or immediately following, before it was approved for payment. The road identified by the auditors as a private road, is not a private road. This road was apparently inadvertently listed in the county's road system as private, however after having this brought to the attention of the Judge Executive, he asked the 911-road department to investigate. They reported this must have been a typo in the listing, as they could find no reason as to why this road would be listed as private. The road in question is a through-road that connects KY. Route 80 with another county road and serves several homes. During the April 2, 2007 meeting of the fiscal court, to correct this mistake and any other roads that may have been inadvertently improperly listed in the county system in the past, the 911-road department re-submitted a list of roads that the county government had previously adopted and/or maintained for several years to the fiscal court for approval.

In regards to some of the invoices from the paving contractors lacking specific information, we do agree, now all invoices must have more specific information before being paid by the court. However, in the instances involving these particular roads, an employee of the county or a member of the fiscal court inspected every road that was paved prior to any invoice being paid. The fiscal court does have a plan and a system for roads being adopted into the county's system for repairs and maintenance and no road is worked on unless the fiscal court approves it.

**KNOTT COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2006
(Continued)**

**2006-02. Knott County Road Expenditures Totaling \$780,814 Could Not Be Validated
(Continued)**

Auditor's Reply:

The adoption of the 552 roads by the fiscal court, combined with the lack of documentation that any county official inspected every single road that was newly paved and any reconciliation of the 552 roads adopted with the private contractors invoices, reflect serious concern that the paving and road expenditures of public funds for roads recorded by Knott County Fiscal Court are questionable.

2006-03. \$412,035 In Public Funds Were Used For The Knott County Adventure Tourism Park System (ATV Center) While On Private Property

Prior to February 8, 2007, the Knott County Fiscal Court spent \$412,035 on the Knott County ATV Center before a deed transferring ownership of the land on which the Center is located from private donors to the fiscal court was executed and recorded. The county clerk recorded a deed on February 8, 2007, to transfer ownership to fiscal court. We noted the deed recorded apparently did not have signatures from all of the grantor property owners.

Since the ATV Center expenditures were paid with county funds two months prior to the time the county obtained legal title to the property on which the Center is located, it would appear Section 171 of the Kentucky Constitution may have been violated. Section 171 does not permit a county to expend public funds for private purposes. In addition, the county risked \$412,035 by not obtaining land ownership prior to incurring expenditures related to the ATV Center. Also, a risk still remains due to the lack of full execution of the deed indicated by not having all of the grantors' signatures.

We recommend the Attorney General and county attorney review all transactions relating to the ATV Center to determine if any laws or regulations were violated. In addition, the county attorney should review the deed to ensure its legitimacy.

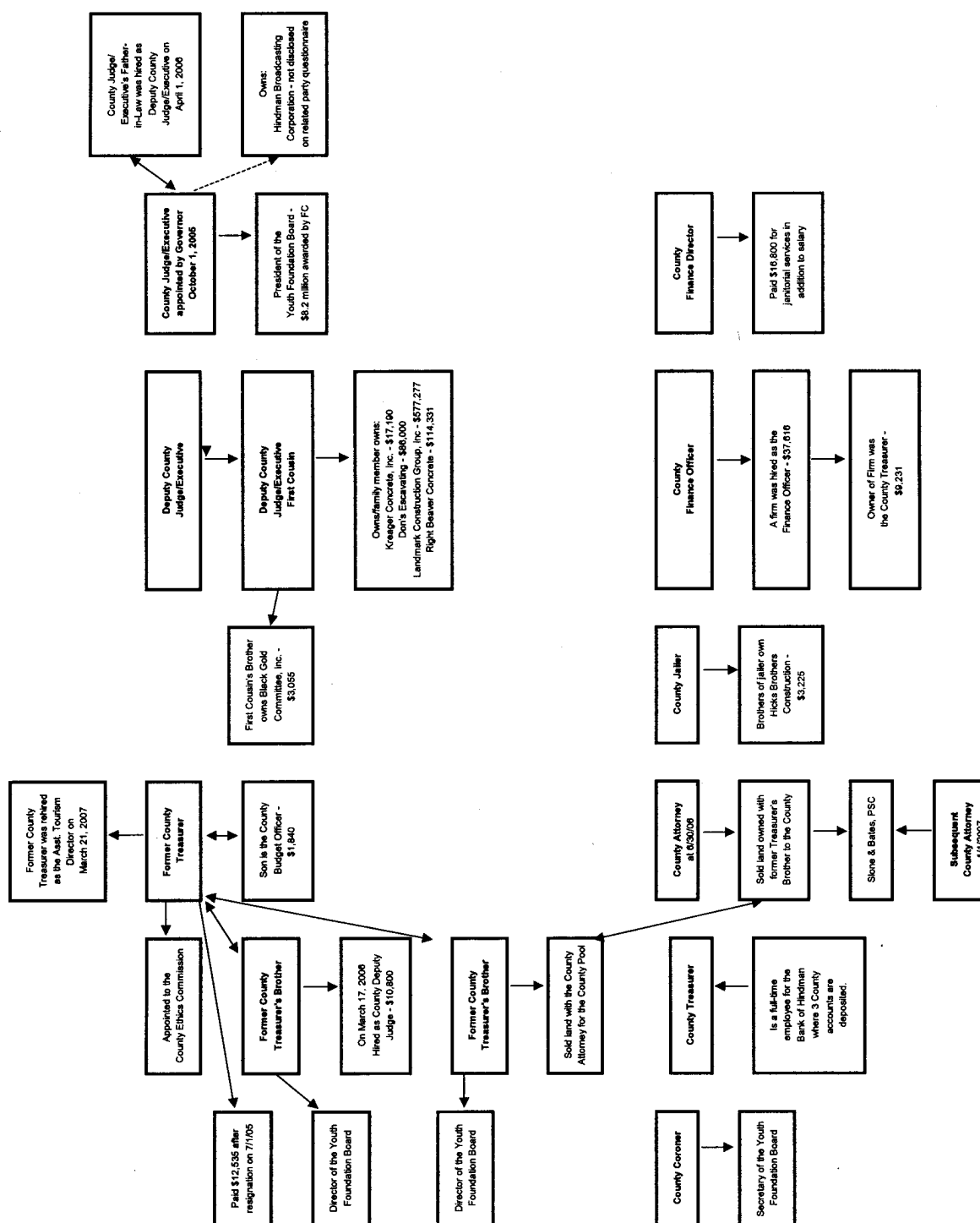
County Judge/Executive Randy Thompson's Response:

Our records reflect that the first payment to the contractor for work on the ATV Training Facility didn't occur until November 22, 2006. A deed from the property owner, where the ATV center was built was obtained with the first signature dated September 29, 2006 and the last one on October 18, 2006. While the deed was not recorded until February 8, 2007, the October 18, 2006 date is the only one with any legal significance since that is the date the Fiscal Court became the fee simple titleholder.

KNOTT COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2006
(Continued)

2006-04. All Related Party Transactions Should Be Disclosed To The Fiscal Court

The following chart is a summary of the related parties and types of transactions, which occurred during the fiscal year:



KNOTT COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2006
(Continued)

2006-04. All Related Party Transactions Should Be Disclosed To The Fiscal Court
(Continued)

The lack of disclosure of these related party transactions to the fiscal court reflects a lack of both proper accounting practices and internal controls, which increases the risk that misstatement of financial activity and/or fraud will occur and go undetected by the county. Without proper procedures in place to mitigate this risk, the county is exposing public resources to potential misstatements and/or fraud.

We recommend the fiscal court provide adequate oversight and monitoring for related party transactions and financial activities to ensure work is completed in compliance with applicable laws and regulations.

County Judge/Executive Randy Thompson's Response:

Knott County is a small county with several people being related in one way or another. The diagram presented by the auditors reflects more of the related parties in the previous administration, which was in office the first 3 months of this audit report. The members of the court are familiar with all the related parties identified and have been shown the diagram. Furthermore, it will be presented to them in an open court meeting.

2006-05. Knott County Paid Approximately \$7,380 In Health And Dental Insurance Benefits For Five Terminated Employees

During our audit, we noted five employees who remained on the county's health and dental insurance plan beyond their termination dates.

As of our report date, the following reimbursements are due to the county for benefits paid on behalf of terminated employees:

The former treasurer resigned July 1, 2005, and received \$8,316 in COBRA benefits up through February 1, 2007. Fiscal court submitted a bill for reimbursement to the former treasurer, after which she submitted an invoice to the fiscal court for \$7,800 for consulting work. Fiscal court gave credit toward her COBRA for the consulting amount. She wrote a check to fiscal court for \$503, leaving \$13 of reimbursement that has not been received.

The budget officer's last date worked was July 15, 2005, before going on sick leave. The budget officer is the former treasurer's son. His employment as budget officer was never terminated, and no personnel file could be found for this employee. He has received \$4,726 in COBRA benefits and has made no reimbursement. It should be noted the budget officer's total compensation for his employment was \$3,312, and has received more in benefits than earnings.

The former judge/executive was terminated September 30, 2005 and elected COBRA benefits. He remitted reimbursements for some cobra benefits but still owes fiscal court \$637.

The former deputy judge/executive was terminated March 31, 2006, and elected COBRA benefits. He remitted reimbursements for some cobra benefits but still owes fiscal court \$1,950.

The former bridge foreman retired on March 24, 2006 and did not elect COBRA; however, benefits were paid for him through his COBRA election date. The county has paid a COBRA benefit of \$53 on his behalf, and no reimbursement has been requested.

**KNOTT COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2006
(Continued)**

2006-05. Knott County Paid Approximately \$7,380 In Health And Dental Insurance Benefits For Five Terminated Employees (Continued)

U.S. Department of Labor regulations indicate that the county's health insurance plan administrator must notify a terminated employee in writing within 30 days of his right to elect COBRA coverage. The employee then must respond to this notice by the 60th day after the written notice is sent to elect COBRA, or lose all rights to COBRA benefits.

The county's administrative code does not specifically address whether COBRA benefits are retroactive to the date of termination, or the date election rights are accepted. An employee manual was not available to us to be able to determine if specific details exist.

We recommend the county monitor the termination of employees and benefits associated with those employees to avoid the loss of assets. We recommend the county attorney or Attorney General review these matters to determine whether reimbursement or further action is warranted.

County Judge/Executive Randy Thompson's Response:

The Fiscal Court has calculated and sent bills to former employees who are on COBRA. In the future all former employees will be required to submit payment for insurance prior to the county paying the insurance on their behalf. Furthermore, we'll see if the insurance provider can bill the people directly. In the future, other issues in relation to this will be discussed in open court meetings.

2006-06. Knott County Bridge Foreman And A Bridge Employee Were Compensated As Both An Employee And An Independent Contractor To Build Bridges Expenditures For Which Could Not Be Validated

The bridge foreman of Knott County was paid \$69,411 as a private, independent contractor to construct 23 bridges in the county during the period from July 1, 2005 through November 16, 2006. This same person was paid \$40,291 as a county employee for performing the same job duties. In addition, another county bridge department employee was paid \$7,300 as a contractor and \$30,099 as a county employee. The invoices submitted to the county from the county bridge foreman's private company lack the details to determine the exact locations and sizes of the bridges, the amount of materials used by the company, or whether the county or the private contractor provided the materials. The invoices submitted to the county should have had enough information to determine the exact location, size of bridge, date of service, and materials used. Without these details we could not determine the validity of these bridge expenditures, including whether the work was actually performed, whether the work was completed, and whether the work was completed on public or private property.

Also, we could not determine at what point the bridge foreman was acting as a county employee and when he was acting as a private, independent contractor. According to IRS Publication 15A, Circular E, the fiscal court, as an employer, must distinguish an individual as either an employee or an independent contractor. If the individual is distinguished as an employee, all compensation is considered wages, applicable to withholdings, and subject to the federal wage and hour laws specifically related to earning time and one-half after 40-hours of work in one week.

We recommend the county attorney review all invoices to determine the validity of the expenditures. We further recommend the fiscal court cease the practice of paying the bridge foreman as both an employee and an independent contractor. We will refer this matter to the Internal Revenue Service, the Kentucky Department of Revenue, U. S. Department of Labor, Kentucky Department of Labor, and the Kentucky Retirement System for review.

KNOTT COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2006
(Continued)

2006-06. Knott County Bridge Foreman And A Bridge Employee Were Compensated As Both An Employee And An Independent Contractor To Build Bridges Expenditures For Which Could Not Be Validated (Continued)

County Judge/Executive Randy Thompson's Response:

This allegation by the auditor also is somewhat inaccurate. Knott County did not have a bridge foreman during the time they are referencing. The Judge Executive received several calls from citizens and emergency personnel about several bridges they deemed unsafe to cross by passenger vehicles and especially emergency vehicles. In an effort to have as many of these bridges repaired, as inexpensively as possible, as quickly as possible for the safety of people utilizing them, the Judge Executive, after consulting with representatives of The Governor's Office for Local Development, decided to contract with an individual, who also is employed by the county, to repair many of these bridges. It is common knowledge among people in the county that this individual does this type of work for other people on his own time as well. Each bridge was identified and presented to the Fiscal Court for approval. The contract specifically stated the employee would not be allowed to do this specific work between the hours of 8am and 4:30pm Monday through Friday, as this is when he is expected to be on the job for the county. Furthermore, he was not allowed to use county tools or equipment while constructing said bridges. The contract also stated, the individual was responsible for all taxes, as he would be presented with a 1099 form for this contracted work. The hiring of this individual saved the taxpayers of Knott County several thousand dollars and repaired many unsafe bridges throughout the county. Nowhere in the circular E does it state that an individual cannot be both an employee in one instance and an independent contractor in another. We respectfully disagree with the auditor's opinion on this matter. However, we will gladly submit this to the county attorney for review.

Auditor's Reply:

According to IRS Publication 15, "generally, a worker who performs services for you is your employee if you have the right to control what will be done and how it will be done. This is so even when you give the employee freedom of action. What matters is that you have the right to control the details of how services are performed. If an employer-employee relationship exists, it does not matter what it is called. The employee may be called an agent or independent contractor. It also does not matter how payments are measured or paid, what they are called, or if the employee works full or part time." IRS Publication 15A states that "to determine whether an individual is an employee or an independent contractor under the common law, the relationship of the worker and the business must be examined. In any employee-independent contractor determination, all information that provides evidence of the degree of control and the degree of independence must be considered. Facts that provide evidence of the degree of control and independence fall into three categories: behavioral control (whether the business has a right to direct and control how the worker does the task for which the worker is hired), financial control (whether the business has a right to control the business aspects of the worker's job), and the type of relationship of the parties (i.e. written contracts, benefits provided, permanency of the relationship)." In this instance the employer has the right to control what the employee will do and how it will be done.

**KNOTT COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2006
(Continued)**

2006-07. Finance Director Was Compensated As Both An Employee And An Independent Contractor

During our testing of payroll, we noted the finance director received \$31,865 of compensation as a county employee as well as \$16,800 for janitorial duties performed as a contractor for the fiscal year.

According to IRS Publication 15A, Circular E, the fiscal court must distinguish an individual as either an employee or an independent contractor. If the individual is distinguished as an employee, all compensation is considered wages and all earnings are subject to the applicable withholdings.

We recommend the fiscal court cease the practice of paying individuals as both employees and independent contractors. All work performed by the employee for the fiscal court should be treated as wages subject to Federal and state wage and hour laws. We will refer this matter to the Internal Revenue Service, the Kentucky Department of Revenue, U. S. Department of Labor, Kentucky Department of Labor, and the Kentucky Retirement System for review.

County Judge/Executive Randy Thompson's Response:

Refer to previous response. Finance Director works after hours performing a totally different job.

Auditor's Reply:

According to IRS Publication 15, "generally, a worker who performs services for you is your employee if you have the right to control what will be done and how it will be done. This is so even when you give the employee freedom of action. What matters is that you have the right to control the details of how services are performed. If an employer-employee relationship exists, it does not matter what it is called. The employee may be called an agent or independent contractor. It also does not matter how payments are measured or paid, what they are called, or if the employee works full or part time." IRS Publication 15A states that "to determine whether an individual is an employee or an independent contractor under the common law, the relationship of the worker and the business must be examined. In any employee-independent contractor determination, all information that provides evidence of the degree of control and the degree of independence must be considered. Facts that provide evidence of the degree of control and independence fall into three categories: behavioral control (whether the business has a right to direct and control how the worker does the task for which the worker is hired), financial control (whether the business has a right to control the business aspects of the worker's job), and the type of relationship of the parties (i.e. written contracts, benefits provided, permanency of the relationship)." In this instance the employer has the right to control what the employee will do and how it will be done.

KNOTT COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2006
(Continued)

2006-08. Knott County Fiscal Court Continues To Lack Controls Over County Vehicles And Cell Phones Provided To County Employees And Fails To Report Personal Use As Taxable Income

Numerous county vehicles are maintained by the county and assigned to employees for business use. County employees and officials have use of these vehicles during non-business hours. Audit staff was informed that many employees drive the county vehicles to and from work and for personal business. The county pays for insurance coverage, repairs/maintenance, and fuel for these county vehicles. The following is a partial list of county vehicles and the employee/department responsible for each vehicle as of June 30, 2006:

Year	Make	Model	VIN	Title/Department
2004	GMC	Envoy	1GHDT13S14212297	Emergency Management
2005	Ford	Crown Victoria	2FAHP71W65X172753	Sheriff
2005	Dodge	Caravan	1D4GP25E65B344179	Senior Citizens/Human Services
2003	Jeep	Cherokee	1J4GW58N63C556109	Judge/Executive
1999	Chevy	4x4	1GCGK24R2XR719544	Magistrate
1999	Chevy	4x4	1GCGK24R3XR719603	Magistrate
1999	Chevy	4x4	1GCGK24R5XR708117	Magistrate
1999	Chevy	4x4	1GCGK24R7XR706112	Magistrate
2002	Chevy	Tahoe	1GNEK13Z32J307344	Treasurer
1999	Jeep	Cherokee	1J4GW58NOXC753735	Finance Officer
1996	Chevy	Caprice	1G1BL52P9TR124574	County Finance Director
2001	Jeep	Cherokee	1J4FF48S71L502696	Bookkeeper - Sheriff
1998	Ford	Expedition	1FMRU18W6WLB34170	Bookkeeper - Sheriff
1991	Jeep	Cherokee	1J4FJ28S5ML57798	Emergency Management Asst. Director
1994	Ford	Explorer	1FMDU34X8RUEO7127	Emergency Management Director
2003	Chevy	Tracker	2CNBJ13C236945993	E-911
1993	Jeep	Cherokee	1J4FJ27S8PL520198	Parks
1992	Jeep	Cherokee	1J4FT28SXNL155416	Parks
2001	Chevy	Silverado	Unknown	Animal Control
1993	Jeep	Cherokee	1J4FJ27S4PL520201	Works Program
2003	Toyota	Tacoma	5TEWM72N33Z262065	Ecology/Solid Waste
2000	Jeep	Cherokee	1J4FF28SOYL257755	Human Services Director
1994	Toyota	4Runner	JT2VN39W3R8060714	Human Services
2001	Chrysler	Van	1C4GJ25B71B216340	Human Services
2002	Chevy	Van	1GN DU23E42D272823	Human Services
1994	Ford	Crown Victoria	2FALP71WXVX183653	Human Services
1994	Toyota	Pickup	4TARNO1P1RZ193770	Human Services
1999	Chevy	Truck (4 DR)	1GCGK24R7XR714923	Road Foreman
1999	Chevy	Truck (4 DR)	1GCGK24ROXR714830	Bridge Foreman
2005	Chevy	Suburban	3GNFK16Z95G160730	Coroner
1997	Ford	F150XCAB	Unknown	Jailer

The county has implemented controls over vehicle use based on previous audit suggestions; however, the controls implemented have not addressed the core issues regarding personal use of public vehicles.

**KNOTT COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2006
(Continued)**

2006-08. Knott County Fiscal Court Continues To Lack Controls Over County Vehicles And Cell Phones Provided To County Employees And Fails To Report Personal Use As Taxable Income (Continued)

The same types of issues exist for cell phone usage. The fiscal court pays for the telephone, usage charges, long-distance, replacement phones, and repairs for each telephone. The fiscal court maintains fifty-one (51) cell phones.

The following issues warrant further consideration by the fiscal court and need to be addressed:

- Mileage and phone logs do not contain information sufficient to distinguish personal use from business use. In the mileage and phone logs tested, vital information was not included, such as the actual mileage for each trip listed or the call and phone service used.
- Commuting use of vehicles and personal use of cell phones is not properly included on employees' Form W-2 statements for tax liability.
- The necessity for county vehicles and cell phones for employees, other than those who are on call at all times, is questionable, especially in relation to commuting use that has been permitted by the fiscal court. The cost of these vehicles and telephones for usage, maintenance, and insurance significantly increases cost to taxpayers.

The county's Administrative Code states, in Section 820.2 "no official or employee shall request, use or permit the use of any publicly-owned or publicly-supported property, vehicle, equipment, material or service for the personal convenience or the private advantage of himself or any other person unless such use has been formally authorized." In addition, the county's vehicle and cell phone use policy restricts the use of county cell phones and vehicles to fiscal court business only. The vehicle use policy states further that all calls and out-of-county trips must be logged, and that any cell phone utilized for business use or vehicle driven home by an employee is expected to be parked by 6:00 pm unless fiscal court business requires otherwise.

Personal use of public resources is permitted if the entity has approved such use; however, personal use should be reported as compensation on employees' wage and tax statements. Internal Revenue Code Section 61(a) states that the commuting value of a vehicle owned or leased by a public entity represents taxable income to the employee.

Controls over cell phones and vehicles do not address issues related to personal use of cell phones and vehicles. Consequently, the personal use of public cell phones and vehicles allows employees to receive an employee benefit without incurring the appropriate tax consequences of such benefits. The county's cell phone and vehicle use policy allows the employees to use cell phones and to drive the county vehicles home, but the county does not currently include any of the personal use or commuting use of public resources on wage and tax statements. The cell phone use policy requires that personal calls be logged by officials/employees and the vehicle use policy approved by the fiscal court requires that only out-of-county trips be logged by officials/employees. Documentation of in-county mileage is not required. This increases the risk that employees are using cell phones and vehicles for personal reasons because employees are not required to account for every call or mile that is used or traveled with public property.

**KNOTT COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2006
(Continued)**

2006-08. Knott County Fiscal Court Continues To Lack Controls Over County Vehicles And Cell Phones Provided To County Employees And Fails To Report Personal Use As Taxable Income (Continued)

We recommend the county improve controls over county vehicles and cell phones by implementing the following:

- The fiscal court should contact the Kentucky Department of Revenue and the Internal Revenue Service relating to wage reporting and tax liability in prior years and enforce current policy related to vehicles assigned.
- Every employee and every department that has county cell phones and vehicles should maintain logs. The logs should include, at a minimum, the date, destination, purpose, and mileage for ALL use of the vehicles and the usage for ALL cell phones.
- Personal calls, use, and commuting mileage for county vehicles should be properly reported as compensation/employee benefit on W-2s in accordance with IRS regulations. Several methods can be used to determine the vehicle use that is taxable income to the employees, including the cents-per-mile rule, the lease value rule, and the commuting rule.
- The county should evaluate the necessity of county cell phones and vehicles for each employee. Cell phones and vehicles should be assigned based on criteria established by the fiscal court and not for the convenience of the official/employee. In addition, the county should explore alternatives for county-related travel, including the possibility of compensating employees based on a usage/mileage reimbursement rate when their personal cell phone or vehicle is used for business travel instead of providing a county cell phone or vehicle for business use.

County Judge/Executive Randy Thompson's Response:

The allegations in this section appear to refer to the first 3 months of this fiscal years audit, which was under another administration. The present Judge Executive stopped the practice of county employees using county vehicles for personal use and collected several county cell phones within a week of receiving appointment to the office. All county vehicles now have a mileage log in them to be filled out whenever it is driven. The current Judge Executive also negotiated a new contract with the cell phone provider, saving the county thousands of dollars. The current Judge Executive has asked all county department supervisors for a complete inventory of all county assets within their departments. In difference to your statement however, the amounts for personal usage of automobiles, where in fact included on the W-2's of the employees during the calendar year 2005. We agree cell phones and automobiles sometimes lend themselves to personal use, so we will continue to monitor these usages.

Auditor's Reply:

The fiscal court did not provide vehicle mileage logs or cell phone use documentation to auditors for the period of 7/1/05 through the date of the audit report.

**KNOTT COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2006
(Continued)**

2006-09. Knott County Fiscal Court Approved The Exchange of .14 Acres Owned By Fiscal Court With .04 Acres Purportedly Owned By The County Attorney and Former County Treasurer's Brother

During our review of fiscal court minutes, we noted that on June 15, 2005, the fiscal court approved a resolution for a like kind property exchange of .14 acres owed by the county and .04 acres of pool property purportedly owned by the former county attorney and a former county treasurer's brother. There was no mention in the deed belonging to the fiscal court that shows .04 acres being excepted out and owned by the county attorney and the former county treasurer's brother.

The fiscal court hired an engineering company to determine whether the county attorney and the former county treasurer's brother own the above property. The engineering company sent a letter dated October 27, 2005, which stated the following:

After reviewing and discussing said information, it is our professional opinion this matter is a legal issue and should be resolved by an independent legal audit. The crux of the issue is in the chain of title for Ruth Slone. There was an adjacent right-of-way deed acquired by the county from D.W. Hays in 1962 for the sole purpose of improving public road access (the old county road and bridge east of the existing Perkins Branch KY Route 3391 bridge at Troublesome Creek). The surveyor interpreted that this property still belongs to the county and indicates as much on the record plat. The Slone Representatives propose the county right-of-way property revert back to the original property after abandonment. This is the area that falls beyond our expertise and scope:

- Does the Ruth Slone property include the D.W. Hays right-of-way deed in its chain of title?
- Is there an automatic reversionary clause, which applies to public right-of-way abandonment, or is there a reversionary document on record? (There doesn't appear to be any reversionary language in the 1962 D.W. Hays right-of-deed).

We recommend that the fiscal court implement the above recommendation. As of the date of this report, a deed for this transaction has not been recorded.

County Judge/Executive Randy Thompson's Response:

The County Attorney has examined the chain of title to the subject property and is of the opinion it does not include the "D.W. Hays right-of-way deed" dated December 22, 1962. In fact, Eugene Ward owned the subject property from 1960-1964; and there was no right-of-way found covering this property. He further advises that even if a right-of-way had existed, its abandonment caused an automatic reversion by operation of law. See KRS 178.116 and OAG 84-358.

KNOTT COUNTY
COMMENTS AND RECOMMENDATIONS
For the Year Ended June 30, 2006
(Continued)

2006-10. Knott County Fiscal Court Failed To Take Corrective Action Of Prior Year Ended June 30, 2005 Comments Relating To Pool Project, Federal And Restricted Funds

▪ **Knott County Fiscal Court Failed To Oversee Coal Severance Project**

The recommendations made in the prior year's fiscal court audit were for the county attorney or Attorney General to review change order transactions for appropriateness, and to determine if county officials acted outside the scope of their authority and if so, whether their acts resulted in invalid transactions, possibly entitling the fiscal court to restitution. Furthermore, the county attorney or Attorney General should investigate whether the project was completed according to the contract and approved change orders, and take all necessary steps to rectify this situation. In addition, the county attorney or Attorney General should review and take appropriate action to limit the county's liability and potential liability for injuries, which could arise from the incomplete pool project. Finally, the Governor's Office for Local Development (GOLD) should have been notified in writing of all resolutions to these findings.

▪ **Knott County Fiscal Court Purchased Pool Property From Related Parties**

It was recommended fiscal court review the mentioned related party transactions to determine if a violation of the county's ethics policy had occurred. As of the date of this audit report, fiscal court has not implemented a review. This has been referred to the Attorney General.

▪ **Knott County Fiscal Court Overpaid Pool Contractor By \$105,331**

It was recommended the county attorney or Attorney General should seek restitution from the contractor in the amount of \$105,331.

▪ **Knott County Fiscal Court Did Not Earmark \$49,223 Of Federal Receipts Or Provide \$11,180 In Matching Funds for Federal Expenditures**

It was recommended that fiscal court contribute \$11,180 to meet appropriate matching requirements and an additional \$49,223 for projects FEMA made advanced payments on, to the federal bank account known as the 2001 flood account.

▪ **County Records Show That During The Fiscal Year, \$25,945 Was Paid From The 2001 Flood Account For Ineligible Work**

The matter was referred to FEMA. The county has not pursued recovery of these funds erroneously paid to the vendor.

▪ **The County's General Fund Owes The Road Fund \$35,000, The LGEA Fund \$332,823, And The E-911 Fund \$33,147**

During the period under audit, the general fund did not repay the amounts stated to the appropriate funds. This has been an ongoing comment since fiscal year ended June 30, 2003.

Our overall recommendation is for the fiscal court to review each comment and take the appropriate action.

County Judge/Executive Randy Thompson's Response:

The Fiscal Court instructed the County Attorney to investigate this situation. He advised the court he had reviewed the contract of Eagle Construction and in his opinion, they were not obligated to pay for certain items i.e. a raindrop, a slide, and a water future pump, including piping and valves, etc. It is the opinion of the county attorney that these are items provided by Recreonics and Natari and paid for by the county.

KNOTT COUNTY
COMMENTS AND RECOMMENDATIONS
For the Year Ended June 30, 2006
(Continued)

2006-11. Knott County Judge/Executive May Appoint Only One Deputy Judge/Executive

It is our understanding the former county judge/executive had two (2) deputy judges. One was to work full-time during the week while the other served only on weekends. One was terminated effective March 31, 2006. Purportedly, the other resigned effective mid-March 2006 to run for the position of county judge/executive. However, he has continued to remain on the county's payroll and according to the judge/executive he was on paid leave. We could not find any documentation of the leave balances to justify the payment of this time or any documentation this individual was approved for new employment. During March-April 2006 the current county judge/executive hired two additional deputy judge/executives.

The county was not in compliance with KRS 67.711, which states the county judge/executive may appoint "a" deputy judge/executive. "A" deputy judge/executive simply means one deputy judge/executive. OAG 78-453. During the fiscal year, there were continual multiple deputy judge/executives. We recommend the county judge/executive become compliant with KRS 67.711 and appoint only one deputy judge/executive. In addition we will refer this matter to the Attorney General for review.

Furthermore, the Knott County Administrative Code states, "Only upon the written approval of the Judge/Executive may the full-time employee begin his/her leave of absence". No documentation was provided to confirm approval of a leave of absence and fiscal court minutes do not discuss the matter. Therefore, we are recommending the county attorney review all payments made to the deputy judge/executive who resigned to determine if the county should seek restitution for compensation paid to this individual after the date of his resignation.

County Judge/Executive Randy Thompson's Response:

The Judge Executive only has one Deputy Judge and a Judge Pro-Tem. Section 120.2 of the Knott County Administrative Code states "Administrative personnel appointments by the Judge Executive shall include a Deputy Judge Executive....Judge Executive Pro-Tem.

2006-12. Knott County Did Not Provide A Form 1099 To The Former Treasurer As Both An Employee And A Contractor For Consulting Fees That Could Not Be Validated

The former treasurer resigned effective July 1, 2005; however, she continued to receive \$6,154 of compensation as an employee from July 1, 2005 through August 12, 2005. During approximately the same time (July 28, 2005-September 23, 2005) she was paid \$6,370 purportedly for consulting work. The county could not provide the invoices she submitted for her services. Therefore, we could not determine the validity of this payment.

According to IRS Publication 15A, Circular E, the fiscal court must distinguish an individual as either an employee or an independent contractor. The IRS also requires a Form 1099 to be filed anytime a person is paid at least \$600 for services rendered as an independent contractor.

We recommend the fiscal court and county attorney review these transactions for appropriateness. In addition, we recommend the fiscal court cease the practice of the same individual as both a county employee and as an independent contractor. Also, an amended Form 1099 should be sent to the former treasurer to ensure appropriate tax reporting. We will refer this matter to the Internal Revenue Service, the Kentucky Department of Revenue, U. S. Department of Labor, and Kentucky Department of Labor for review.

**KNOTT COUNTY
COMMENTS AND RECOMMENDATIONS
For the Year Ended June 30, 2006
(Continued)**

**2006-12. Knott County Did Not Provide A Form 1099 To The Former Treasurer As Both An Employee And A Contractor For Consulting Fees That Could Not Be Validated
(Continued)**

County Judge/Executive Randy Thompson's Response:

You indicate that the county could not provide invoices the former treasurer submitted for her services. These invoices were for July, August, and September of 2005. The invoice that was paid in September was in the file. However, as you are aware, all paid invoices of the Knott County Fiscal Court (not just hers) for July and August 2005 were physically taken by the state auditors office (yourselves) for this period. When you conducted your fieldwork no invoices for these two months were in the files located in the county judge executive's office-not just these invoices for her, but no invoices for any vendor for July and August during your audit period. These were records that were in your possession and had been reviewed by yourselves as subsequent events in relation to your 2004-2005 audit. You physically removed them from the possession of the Knott County Fiscal Court. In fact, during your fieldwork, it appears that neither you or your staff reviewed any of these invoices. Whatever you or your staff returned was stored in a specific location apart from all other financial documents. This included all of the invoices and all other information that you returned for July and August 2005. When you sent the new auditors it was apparently not noticed that these invoices were not in the file. In addition, when you returned these files, no member of the Fiscal Court signed for the return of these invoices. There was nothing that indicates what may or may not have been returned by you.

Upon discussing this issue with all people who had access to the location of the invoices for July and August 2005, it appears that you did not review any of these. It should have been noticed that the invoices you viewed began in September 2005. At no point did anyone connected with your fieldwork appear to notice that an entire two months of invoices were in a location that you did not ask for.

You are correct that a 1099-MISC should have been issued for this service. The county did issues numerous other forms 1099 for this period. This particular form 1099 and the related 1096 have since been issued to this former treasurer. These have properly been provided to the Internal Revenue Service as well as to the independent contractors. In the future, the county will make every effort to ensure that all forms 1099 that should be issued are in fact issued.

Auditor's Reply:

During the course of the previous audit, state audit staff became aware of certain information from a credible source that the auditors' safety and the safety of county records being reviewed were at risk of harm. In light of the history of such issues in the county, and after consultation with the law enforcement agencies, it was determined that it was in the best interest of all involved for staff to work off site and for records to be subpoenaed and secured off site at the Kentucky State Police Post. Upon the conclusion of the prior year audit, the records were returned to the county on June 14, 2006, the county judge/executive refused to sign acknowledgement of receipt for them in writing. Furthermore, invoices for the current audit period, July 1, 2005 through June 30, 2006, were made available to our staff for testing and each exception was discussed with a county staff member.

**KNOTT COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2006
(Continued)**

2006-13. All Contingent Liabilities Should Be Disclosed To The Fiscal Court

According to the county attorney's representation letter received by us, the potential litigation issues within Knott County are somewhere between \$40,000 and \$80,000. However, a construction lien was filed with the county clerk's office, subsequent to year-end, for the amount of \$424,060 relative to the Knott County Youth Center and Knott County Senior Center.

We recommend the county attorney or Attorney General review these transactions related to the lien filed for appropriateness, and to determine if invalid transactions possibly entitle the fiscal court to restitution. The county attorney or Attorney General should investigate whether the projects were completed according to the contract and approved change orders, and take all necessary steps to rectify this situation. In addition, the county attorney or Attorney General should review and take appropriate action to limit the county's liability and potential liability for injuries, which could arise from the incomplete projects. Finally, the Governor's Office for Local Development (GOLD) should be notified in writing of all resolutions to these findings. We further recommend that in the future, the fiscal court have a clear plan and understanding of its responsibility for overseeing the construction and completion of all construction projects to avoid potential litigation.

County Judge/Executive Randy Thompson's Response:

As to the litigation regarding the Knott County Youth Center, despite the amount of the construction lien that has been asserted it continues to be the opinion of the county's legal counsel that the matter value has a maximum value at or around \$80,000.00. At this time discovery had just begun on this matter and both sides have filed legal motions, however, the county's legal assessment of its potential liability remains unchanged at this time. In fact the claim stands a strong possibility of being dismissed outright. In addition, the County Judge Executive informed the Court of the action immediately after receiving the appropriate documentation.

2006-14. The County Failed To Comply With State Laws And Regulations

The county did not follow the guidelines set forth in the instructional guide and policy manual issued by the State Local Finance Officer and applicable Kentucky Revised Statutes. Specifically, the following non-compliances were noted:

- Fiscal court did not pay invoices within thirty (30) days as required. Ten (10) instances were noted in which payment to vendors occurred more than 30 days after the county received the invoice(s). In addition, the statutory 1% interest penalty was not paid to vendors for each month payments exceeded thirty (30) days. Approximately 30% of the invoices in the test sample were not paid within the statutory time frame.
- Within our sample tested, two (2) out of thirty-four (34) disbursements had insufficient supporting documentation or no documentation at all. Two (2) out of thirty-four (34) were incorrectly recorded in the wrong account or fund-type.
- The fiscal court had adopted a policy for small purchase procedures as required on November 16, 2005. When practical, this policy requires several price quotations from reputable sources before purchases of less than \$20,000 are made. Based upon our review, no documentation was provided which indicated that the small purchase procedures were implemented.

KNOTT COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2006
(Continued)

2006-14. The County Failed To Comply With State Laws And Regulations (Continued)

- Fiscal court did not review the administrative code.
- Fiscal court does not have a written investment policy.
- The fiscal court has an established Federal Grant Fund. However, federal monies were accounted for in the following funds: the LGEA Fund, and State Grant Fund, along with other non-federal monies.

KRS 68.020(5) outlines provisions for settlement of the treasurer's accounts within thirty (30) days after the close of each fiscal year. A written security agreement is a requirement of 12 U.S.C. § 1823(e). KRS 68.005(2) states, "The fiscal court shall review the county administrative code annually and, during the month of June, may by a two-thirds majority of the entire fiscal court amend the county administrative code at that time." Requirements for a written investment policy are addressed in KRS 66.480(3). Compliance requirements regarding expenditures are noted in KRS 65.140(2), which requires all bills for goods and services to be paid in full within thirty (30) working days of receiving vendor invoices. It continues to state that if payment of invoices exceeds thirty (30) days, a 1% interest penalty should be added. Also, the county's administrative code states the fiscal court adopted KRS Chapter 45A, *Model Procurement Code*, in its entirety. KRS Chapter 45A.385 allows purchases without bidding for contracts less than the \$20,000 threshold if the small purchase procedures are in writing and available to the public.

We recommend the county review, utilize, and adhere to all applicable laws and regulations. Specifically, we recommend the county take the following action to comply with the Governor's Office for Local Development requirements and Kentucky Revised Statutes included within:

- Ensure expenditures occur within thirty (30) days of receiving vendor invoices or compensate vendors according to statutory interest penalties for payments exceeding thirty (30) days.
- Review administrative code annually in June.
- Adopt a written investment policy.
- Follow the small purchasing procedures in accordance with the administrative code and KRS Chapter 45A, *Model Procurement Code*.
- Ensure all financial transactions are recorded in the ledgers.
- Ensure that federal monies are accounted for in the appropriate funds.

County Judge/Executive Randy Thompson's Response:

The Fiscal Court will make every effort to pay bills as timely as possible. With respect to the other comments, without more specific information from the auditors we cannot appropriately respond. While you're asking us to be very specific in all we do, your comments are very vague.

Auditor's Reply:

Each and every invoice tested and all findings were discussed in detail with someone on your staff.

KNOTT COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2006
(Continued)

2006-15. Knott County Fiscal Court Did Not Follow Competitive Bidding Requirements For County Projects And Contracts Not Bid Were Paid To Related Parties

Based on the county's fourth quarter financial report, the fiscal court had \$6,621,729 of operating expenditures net of related debt and payroll. A sample of fifty-four (54) transactions was tested for compliance with contract bidding requirements. Of this sample, forty-four (44) out of fifty-four (54) transactions were not competitively bid. Our test of compliance and internal controls noted \$2.04 million out of \$2.76 million were not bid. Of the items tested, it should be noted that \$1.18 million was paid to related parties. A related party transaction is a business arrangement between two parties who are joined by a special relationship prior to the deal. The effect of these transactions may be a conflict of interest.

During our subsequent event review, we noted bids were not obtained for the county judge/executive's 2007 Chevrolet Avalanche valued at \$36,200 in addition to the paving projects previously mentioned.

According to the county's Administrative Code, the county has adopted, in its entirety, KRS Chapter 45A, the Kentucky "Model Procurement Code" (KMPC). According to KMPC, the county, as a local public agency, may dispense with the requirement of competitive bidding and contract purchase through noncompetitive negotiation only when: 1) a written determination is made that competition is not feasible and 2) it is determined, in writing, by a designee of the county that an emergency exists which will cause public harm as a result of the delay in competitive procedures. We found neither any written determination that competition was not feasible, nor that an emergency was declared to exist. Thus, the county did not comply with the KMPC in the payment of these expenditures.

Competitive bidding ensures that the county procures materials and service contracts at the best price available. By limiting competition, the county may not get the benefits of the best price available.

We recommend the county review and adhere to applicable laws relating to procurement. Also, fiscal court should review related party transactions to determine if they are in violation of the county ethics policy. A list of related party transactions and the procurement tested, which were not competitively bid, have been forwarded to the Governor's Office for Local Development and to the Attorney General.

County Judge/Executive Randy Thompson's Response:

Bids were requested for the 2007 Chevrolet Avalanche. This was explained to the representative of the state auditor's office. The Judge Executive wrote an advertisement and had it faxed to various dealerships, thinking this would be a more effective way to attract bids from a larger variety of dealerships. This unfortunately was not the case as only one dealership submitted a bid. The auditors have not identified the 44 transactions to which they refer to the Judge Executive so we cannot specifically respond to that allegation, however, we do advertise for bid every item or service anticipated costing more than \$20,000.00. We also advertise each year for the purchase of products and services including, but not limited to, gravel, asphalt, fuel plus other services i.e. vending machines. We did not do this in 2006, because contracts for these items/services had been bid and awarded during the later part of 2005. As for the related party issues, again I'm not sure specifically what transactions to which they're referring, however the court is aware of related parties as identified earlier.

Auditor's Reply:

Each and every invoice tested and all findings were discussed in detail with someone on your staff.

KNOTT COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2006
(Continued)

2006-16. Knott County Fiscal Court Should Improve Controls Over Payroll Procedures And Should Pay Overtime In Accordance With Wage And Hour Laws

Several deficiencies were noted in the internal control structure as it relates to payroll, namely, in the documentation, preparation, and presentation of payroll items. The following issues were noted during payroll testing and need to be addressed by the fiscal court:

- Time and a half payments were not made properly for employees. Several instances were noted in which overtime was not calculated properly based upon the overtime documented on timesheets. We noted a holiday was paid at an overtime rate.
- Of the twenty-seven (27) timesheets tested, fourteen (14) timesheets tested did not contain proper supervisor signatures or proper employee signatures.
- Timesheets did not contain a week ending date to substantiate a valid timesheet for the weeks tested. Also, timesheets do not track actual daily hours employees work.
- For four employees tested, no record of approval of salaries through the fiscal court is on file.
- In fourteen (14) instances, employee files were missing W-4 or K-4 information, or both.
- In one instance an incorrect deduction was taken from an employee's paycheck based upon the information contained in the employee personnel file.
- Health insurance plan information should be maintained in a separate file other than individual personnel files based on confidentiality issues concerning the new Health Insurance Portability and Accountability Act of 1996 (HIPAA) laws.
- Vacation time and sick leave are not monitored. No documentation was found for any employees on the amount of vacation or sick leave available, used or earned.
- Treasurer holds full-time employment at a local bank as well as full-time employment for the county. The timesheets did not contain enough information to determine if the treasurer maintained a regular schedule.

The Fair Labor Standards Act (FLSA) requires that all covered, nonexempt employees be paid overtime pay at a rate of not less than one and one-half times an employee's regular rate of pay after 40 hours of work in a workweek. In addition, the county's administrative code outlines that all overtime is to be compensated at one and one-half times the employees' regular wage rate, including all non-supervisory salaried employees. According to the administrative code, "Holidays are paid holidays at the regular rate of pay for all full-time employees."

The county's administrative code in 330.4 defines a full-time employee as "an employee who works at least forty (40) hours per week on a regularly scheduled basis."

KRS 337.320 requires that employers "keep a record of the hours worked each day and week by each employee." Timesheets are also necessary to document eligibility for employee benefits such as retirement.

Internal Revenue Service guidelines allow for the exclusion of certain employee benefits, including retirement, dental insurance, and health insurance, from gross wages subject to federal taxation. However, the employee benefits are only to be deducted from gross wages once.

**KNOTT COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2006
(Continued)**

2006-16. Knott County Fiscal Court Should Improve Controls Over Payroll Procedures And Should Pay Overtime In Accordance With Wage And Hour Law (Continued)

Good internal controls dictate that all employees, except those statutorily exempt from this requirement, maintain and submit timesheets for payroll processing. To further strengthen internal controls, the timesheets should be signed by the employee and by the employee's immediate supervisor for verification and attestation of the accuracy of time reported.

Lack of proper internal controls for payroll increases the risk that incorrect payroll information will be processed by the county and that these errors will not be identified and corrected.

We recommend that the county implement the following internal control procedures to ensure the proper documentation, preparation, calculation, and presentation of payroll related items:

- All employees eligible for overtime benefits should be compensated at a rate no less than one and a half times the employee's hourly wage rate, including salaried employees, and calculated in accordance with the county's administrative code.
- The county should ensure that employees' health insurance information is kept separate from the personnel files.
- The county should ensure that all deductions are applied consistently among all employees according to documentation filed in each employee's personnel file.
- The county should contact the Internal Revenue Service and the Kentucky Department of Revenue for guidance on how to correct the 2006 Forms W-2.
- The county should require all employees to maintain and submit timesheets with daily detail, except those statutorily exempt. Furthermore, the county should require employees and their immediate supervisors to sign all timesheets.
- The fiscal court should approve all salaries and salary changes.
- The county should maintain correct job classifications to ensure proper reporting in correct funds and budget line items.
- The county should record and monitor all vacation and sick leave earned and used.

We will refer this matter to the U. S. Department of Labor, Internal Revenue Service, Kentucky Department of Labor, Office of Workplace Standards, Kentucky Retirement System, and the Department of Revenue for review.

County Judge/Executive Randy Thompson's Response:

Let the record reflect, this occurred during the previous administration. The current administration discovered the mistake and corrected it. The Knott County Fiscal Court 2004 Forms W-2 as originally filed were incorrect. Certain employee benefits were deducted twice from the gross earnings, which resulted in taxable wages being understated by \$84,337.29. As referenced above in the auditor's comments, employee benefits including retirement, dental insurance and health insurance withholdings are only to be deducted once from gross earnings to arrive at taxable earnings. The Knott County Fiscal Court issued 86 2004 Forms W-2c (corrected wage and tax statements) to correct the original 2004 Forms W-2 and recommended that employees amend their 2004 Individual Income Tax Returns.

**KNOTT COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2006
(Continued)**

2006-16. Knott County Fiscal Court Should Improve Controls Over Payroll Procedures And Should Pay Overtime In Accordance With Wage And Hour Law (Continued)

The Knott County Fiscal Court Forms W-2 for 2005 and 2006 correctly reflect the deductions for the retirement and employee insurance withholdings and do not require amending as the auditors suggest.

The Knott County Fiscal Court pays employees for overtime hours at a rate of one and one half times their hourly wage rate. The Knott County Fiscal Court's policy is to pay employees regular hourly rates for holidays. The auditor's findings that the Knott County Fiscal Court did not properly calculate overtime and that a holiday was paid at an overtime rate were not brought to our attention during the auditor's fieldwork and we have not been provided with specific information to either confirm or contest their findings.

The Knott County Fiscal Court approves all salaries and salary changes as the auditors have included in their recommendations. If the auditors found an exception to this policy, it was not discussed with us during their fieldwork.

The Knott County Fiscal Court will strive to improve internal control procedures relating to payroll timesheet preparation and supervisory approval of payroll timesheets. The Judge Executive has appointed an employee to specifically oversee this and to monitor vacation and sick leave of county employees.

Auditor's Reply:

Each and every invoice tested and all findings were discussed with appropriate members of your staff.

2006-17. Knott County Fiscal Court Expenditures Of Over \$2 Million Failed To Have Proper Documentation Or Comply With Payment Procedures

During the course of our engagement, we noted the county did not implement proper accounting and internal control procedures for financial management activities:

- Auditors noted forty-four (44) expenditures out of fifty-four (54) tested, or \$2.04 million out of \$2.76 million, which did not meet testing requirements (i.e. original invoices, maintaining of records, bids, et cetera).
- Counter checks were used for several bank accounts. Examples include the Youth Development Center account, the Community Development Block Grant Account, and the Abandoned Mine Land Grant Account. In addition, blank counter checks were not maintained in a secure location.
- Check signers are the treasurer and the finance director/purchasing officer. KRS 68.275(1) requires checks to be signed by the county judge/executive and co-signed by the county treasurer.
- Invoices were not properly cancelled upon payment to prevent duplicate payments. We also noted that our subsequent events test work revealed the potential for a triple payment crossing years. We noted one payment for financial consulting in FYE 2005 appears to also have been paid in FYE 2006 and again in FYE 2007. There were no supporting invoices for FYE 2005 or FYE 2006, however the invoice for FYE 2007 is for services rendered within FYE 2005 and 2006.

KNOTT COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2006
(Continued)

2006-17. Knott County Fiscal Court Expenditures Of Over \$2 Million Failed To Have Proper Documentation Or Comply With Payment Procedures (Continued)

- Several invoices were noted as having descriptions on the invoices, which did not correspond to the classification of the account line item to which it was posted or the fund from which the payment was actually made. One example was an invoice found to be for a FEMA project for \$53,750 but was paid and recorded in the LGEA fund.
- Purchase orders were not issued in accordance with established guidelines. Important information was often excluded from purchase orders such as product descriptions, quantities, prices, totals, and appropriation codes. Also, purchase orders were processed without proper approval signatures. Purchase orders were also issued without comparison to availability of budgeted funds.
- An accurate encumbrance list was not maintained. A variance of \$63,747 was noted between the county maintained General Fund encumbrance list and the 4th Quarter Financial Statement.

Good internal controls dictate that adequate supporting documentation be maintained for all receipts and disbursements. The Governor's Office for Local Development (GOLD) requires that original documentation be maintained for all expenditures. Copies of invoices and faxed invoices are unacceptable. All original invoices should agree to corresponding purchase orders. Additionally, all documentation for financing activity should be maintained and included on financial reports.

Proper accounting procedures and internal control policies should be in place. Bank reconciliations should be prepared for all accounts. Pre-numbered and preprinted checks should be used for disbursements. The use of counter checks should be limited. All checks should be stored in a secure location. All expenditures should be reviewed and approved by the fiscal court prior to payment. Also, disbursements should be made as soon as practical after the fiscal court approves the expenditures. All invoices should be cancelled upon payment. Purchasing procedures should be in accordance with Governor's Office for Local Development (GOLD) requirements, specifically, purchase orders must include the appropriation account number to which the claim will be posted and proper approval by management or the department head. Vendor names, departments, product descriptions, quantities, and prices should be on each purchase order issued in order for the purchasing procedures to be effective. Sound management and a good internal control structure are essential for the achievement of full oversight and accountability.

Lack of proper accounting practices and internal controls increases the risk that misstatements of financial activity and/or fraud will occur and go undetected by the fiscal court. Without proper procedures in place to mitigate this risk, the fiscal court is exposing public resources to potential misstatements and/or fraud.

We recommend the county attorney or Attorney General review this matter to determine whether further action is warranted. We also recommend the fiscal court take critical steps to implement proper accounting and internal control procedures and monitor financial management activities by doing the following:

- Develop procedures for retaining adequate supporting documentation for all financial transactions.
 - Maintain original invoices for all expenditures.
 - Maintain proper documentation for all financing activities including, but not limited to, lease agreements and amortization schedules. Also, all financing activity should be included on financial reports as required.

**KNOTT COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2006
(Continued)**

2006-17. Knott County Fiscal Court Expenditures Of Over \$2 Million Failed To Have Proper Documentation Or Comply With Payment Procedures (Continued)

- Develop procedures to ensure good accounting practices and internal control procedures.
 - Prohibit the use of counter checks and all checks should be kept in a secure location.
 - Maintain bank statements with imaged copies of both front and backsides of checks.
 - Approve and review all disbursements prior to payment. In addition, the lapse of time between approval of expenditures and the actual disbursement should be limited.
 - Cancel (mark paid) all invoices upon payment.
 - Adhere to purchasing procedure requirements and guidelines set forth by the Governor's Office For Local Development (GOLD) State Local Finance Officer Policy Manual.

County Judge/Executive Randy Thompson's Response:

The Knott County Fiscal Court was responsible for writing over 10,300 checks. Five disbursements-only five-were made by counter checks. In at least two of these instances, these were simply for accounts, which were set up to make one deposit for a grant for which one check would be written. In the other cases they were written to close accounts. It is our thinking that if only one check will ever be written on an account that it would certainly be unwise to order and pay for checks when only one check is needed.

In response to your note that 44 expenditures out of 54 tested did not meet testing requirements, it is our understanding that many of these are for the months of July and August which you did not notice were not in the paid invoice files as previously stated. For the others, we wish you would be more specific as to why they did not pass you test. You say (i.e. original invoices, maintaining of records, bids, etcetra). This is not very specific. We think all of these invoices to which you are referring were in fact available for your viewing. You seem to be saying they were not there. If they were not, it is probably for those that were in July or August.

Auditor's Reply:

Of the 44 expenditures which did not meet testing requirements, all 44 items did not follow the requirements for the procurement bid process as established by the county's Administrative Code, 2 did not have sufficient documentation and 10 were not paid within 30 days of the invoice date. Of the 54 expenditures tested in total, 13 were expenditures paid in the months of July and August. Of those 13 expenditures, 6 did not follow the requirements for the procurement bid process as established by the county's Administrative Code.

**KNOTT COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2006
(Continued)**

2006-18. Knott County Fiscal Court Minutes Should Accurately Reflect What Occurs At Fiscal Court Meetings; and Committees, Commissions and Boards Appointed By The Fiscal Court Should Also Maintain Minutes Of Their Respective Meetings

Fiscal court minutes are not detailed enough to provide adequate information to the public. The fiscal court minutes and appointed committees need to accurately reflect what occurs during fiscal court and committee meetings. The minutes need to include all bids submitted to fiscal court, a listing of all claims approved and paid, copies of budgets and financial statements or other items presented, and any other information that supports the actions taken by the fiscal court. Anyone looking for information about meetings should be able to find it in the minutes. The absence of this supporting documentation prevents the public from knowing what actually occurred at the meetings. We were often unable to verify information in the minutes because of the lack of detail and supporting schedules. Many of the questions we have with the minutes could have been avoided by simply attaching the amendments, budgets, ordinances, bids, deeds, agreements, or any additional paperwork that was submitted to the fiscal court. We recommend that the fiscal court appointed committees, commissions and boards maintain accurate minutes with supporting documentation of all actions taken. We further recommend that the fiscal court minutes contain any information necessary to support the actions taken by the fiscal court and consult with GOLD if any additional help is needed.

County Judge/Executive Randy Thompson's Response:

This concern will be addressed with the county clerk, who records the minutes for the Fiscal Court's meetings. In addition, boards or committees appointed by the Fiscal Court will be required to keep minutes of their meetings.

2006-19. The County Does Not Maintain Proper Documentation For Accurate Valuation Of Capital Assets

The county does not maintain original documentation for all capital assets. Several instances were noted in which copies had to be obtained for deeds, titles, and invoices since the original documentation could not be located. Additionally, some deeds were not executed; titles and invoices were not available at all. Also, there was no complete capital asset inventory listing available. Based upon missing, incomplete or lack of documentation, values relating to capital assets could not be determined.

The county cannot properly determine insurance needs or if surplus property is owned without proper documentation. The *Instructional Guide For County Budget Preparation and State Local Officer Policy Manual*, issued by the Governor's Office for Local Development (GOLD), outlines requirements for capital assets. The requirements specifically state: "All contracts, invoices, purchase orders and authorizations, vendor bidding documentation, receipts, deeds, etc. must be maintained/filed with the asset documentation records."

The county does not maintain proper supporting documentation for capital assets and did not comply with capital asset requirements as established by GOLD.

We recommend the county maintain all capital asset documentation as required in GOLD's policy manual. Original documentation should be maintained in a central location with copies provided to the applicable departments as necessary for departmental recordkeeping.

County Judge/Executive Randy Thompson's Response:

The Knott County Fiscal Court will make every effort of prepare a Capital Assets Schedule.

KNOTT COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2006
(Continued)

2006-20. The County Does Not Maintain Proper Documentation Totaling \$45,222 For Independent Contractors

During our testing of payroll, we noted two independent contractors retained by the county to provide services did not have written agreements with the county for the scope of the services to be performed, or for the details and documentation required for submission of invoices for payment. One contractor, a corporation, was paid \$34,722 and the other, an individual, \$10,500. Both contractors, however, were approved by the fiscal court to be paid a monthly amount.

In addition, a third independent consultant, an individual was noted. The former treasurer was paid both as a consultant and as an employee, as noted in a previous finding, and did not have a written agreement for the scope of services to be performed. Our test work noted that none of these payments were reported to the IRS on Form 1099 MISC.

In order for these contractors to be paid, an invoice detailing the services provided on a monthly basis should be maintained and monitored to ensure the safeguarding of assets. Supporting documentation should be maintained with the invoices for time and expenses incurred for the services provided. We recommend the county contact federal and state agencies for guidance on how to determine and document the status of independent contractors, the writing of service agreements, submission of supporting documentation for services performed in order to minimize any loss of assets.

County Judge/Executive Randy Thompson's Response:

A written agreement will be signed between the county and independent contractors in the future.

2006-21. Approximately \$8.2 Million Of Assets Are At Risk Due To Inadequate Insurance Coverage

As of the date of this audit report, the Knott County Judicial Center, Detention Center, and the ongoing swimming pool project do not have adequate flood insurance. The county obtained \$135,000 of flood insurance for the Judicial Center building. This building had an outstanding principal debt balance at June 30, 2006 of \$5.855 million.

The \$1.1 million Detention Center and the swimming pool project with costs exceeding \$1 million do not have any flood insurance. However, the county does have a \$1 million flood policy through KACO, but this policy does not cover buildings located in the 100-year floodplain. The Judicial Center, Detention Center, and swimming pool are located in the 100-year floodplain.

Good cash management dictates the fiscal court retain adequate insurance coverage and ensure assets of significant value are included on insurance policies. According to FEMA's *Public Assistance Guide* for insurable structures that do not have flood insurance or carry inadequate flood insurance, FEMA will reduce all grants by the greater of: 1) the maximum amount of insurance proceeds that have been obtained from a standard National Flood Insurance Program flood insurance policy; or 2) the actual insurance proceeds received.

Approximately \$8.2 million of the county's assets, representing about 99% of buildings, are at risk because the fiscal court does not maintain adequate flood insurance. In addition, the assets that are not adequately insured were all recently constructed or remodeled.

**KNOTT COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2006
(Continued)**

2006-21. Approximately \$8.2 Million Of Assets Are At Risk Due To Inadequate Insurance Coverage (Continued)

We recommend the fiscal court maintain adequate insurance coverage for all assets. Officials should periodically review insurance policies to ensure all assets have been added or deleted as necessary. Also, we recommend the fiscal court obtain flood insurance for all assets located in flood prone areas in an amount sufficient to recover losses suffered in the event of a flood.

County Judge/Executive Randy Thompson's Response:

The county has contacted KACO and requested the additional insurance coverage.

2006-22. Fiscal Court Paid \$303 In Late Fees On Credit Card Payments

During the course of our testing, we noted that many invoices were paid past the due date, especially for the Knott County Fiscal Court and Human Services Center. Payments for credit cards used by the employees included \$303 in late fees. We further noted in several instances the supporting documentation (i.e. cash register receipts) were not maintained or reconciled to the statements and an outstanding balance remained unpaid on the accounts. We also noted that the credit limits of two (2) of the vendors used for credit cards seemed excessive when compared to the average amount purchased each month. The average purchase amounts on the cards on a monthly basis are approximately \$350, however the credit line on one card is \$9,500 and \$22,500 on the other. The latter one also has a cash line limit of \$4,500. Based upon the documentation we could not determine the number of cards that were available on either of these accounts or the employees assigned to these cards.

Strong internal controls dictate that there be procedures in place that reconcile monthly credit card receipts submitted by employees to the credit card statements. A strong mitigating control is to remove cash availability on any credit card and maintain the credit limits commensurate with the needs of the county.

We recommend that the fiscal court implement procedures to eliminate the excessive credit lines to ensure proper authorization and use of the credit cards, and to reconcile the credit card receipts to the credit card statements on a monthly basis.

County Judge/Executive Randy Thompson's Response:

The court will look into the credit limit on cards and make every attempt to pay them on time.

KNOTT COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2006
(Continued)

2006-23. Fiscal Court Should Improve Policies and Procedures Related To The Schedule of Expenditures Of Federal Awards

During our review of the Schedule of Expenditures of Federal Awards (SEFA), we noted multiple significant errors. Specifically, we noted the following errors:

- Approximately \$111,456 of federal expenditures were not included on the schedule.
- The SEFA did not include all applicable federal grants awarded to the county government.

OMB Circular A-133, Subpart C-Auditees; § _____. 300 Auditee responsibilities states,

The auditee shall:

- Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.
- Prepare appropriate financial statements, including the Schedule of Expenditures of Federal Awards in accordance with § _____.310”

We recommend fiscal court follow OMB Circular A-133 for preparation of the government’s SEFA and review for completeness. We further recommend procedures be put into place to ensure all federal grants awarded and expenditures paid are included.

County Judge/Executive Randy Thompson’s Response:

The Fiscal Court will make every effort to follow the guidelines you specify.

KNOTT COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2006
(Continued)

PRIOR YEAR FINDINGS:

2005-01	Knott County Fiscal Court Failed To Oversee Coal Severance Project
2005-02	Knott County Fiscal Court Purchased Pool Property From Related Parties
2005-03	Knott County Fiscal Court Approved The Exchange Of .14 Acres Owned By Fiscal Court With .04 Acres Purportedly Owned By The County Attorney And Former County Treasurer's Brother
2005-04	Knott County Fiscal Court Overpaid Pool Contractor By \$105,331
2005-06	County Employees Used The County Judge/Executive's Credit Card
2005-07	The County Failed To Comply With The Governor's Office For Local Development Reporting Requirements And Kentucky Revised Statutes Related To Financial Reporting, Management, Investment And Protection Of County Funds
2005-09	Knott County Fiscal Court Should Improve Internal Controls Over County Vehicles
2005-10	Approximately \$8.2 Million Of Assets Are At Risk Due To Inadequate Insurance Coverage
2005-11	Knott County Fiscal Court Financial Management, Expenditure Documentation, And Payment Procedures Are Inadequate
2005-12	Fiscal Court Should Improve Policies and Procedures Related To The Schedule Of Expenditures Of Federal Awards
2005-14	Knott County Fiscal Court Did Not Earmark \$49,223 Of Federal Receipts Or Provide \$11,180 In Matching Funds For Federal Expenditures
2005-16	The Knott County Fiscal Court Should Improve Controls Over Payroll Procedures
2005-20	County Records Show The During The Fiscal Year \$25,945 Was Paid From The 2001 Flood Account For Ineligible Work
2005-21	County Employees Should Not Be Compensated As Independent Contractors
2005-22	All Related Party Transactions Should Be Disclosed To The Fiscal Court And All Expenditures Be Competitively Bid
2005-23	The General Fund Owes The Road Fund \$35,000, The LGEA Fund \$332,823, And The E-911 Fund \$33,147

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



*Simon,
Underwood &
Associates* PSC

Certified Public Accountants and Consultants

The Honorable Randy Thompson, Knott County Judge/Executive
Members of the Knott County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We were engaged to audit the financial activity contained in the Fourth Quarterly Report of Knott County, Kentucky, as of and for the year ended June 30, 2006, and have issued our report thereon dated March 28, 2007, wherein, we disclaimed an opinion on the financial statements.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Knott County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the Fourth Quarterly Report and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Knott County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying comments and recommendations as items: 2006-02, 2006-04, 2006-05, 2006-08, 2006-13, 2006-16, 2006-17, 2006-18, 2006-19, 2006-20, 2006-21, and 2006-23.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider all of them to be material weaknesses.

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Knott County's Fourth Quarterly Report is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations as items: 2006-01, 2006-03, 2006-06, 2006-07, 2006-09, 2006-10, 2006-11, 2006-12, 2006-14, 2006-15, and 2006-22.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Simon, Underwood & Associates PSC

Simon, Underwood & Associates PSC
Certified Public Accountants and Consultants

Louisville, Kentucky
March 28, 2007

